**Report of the Standing Committee on Appropriations on the 2022 Medium Term Budget Policy Statement, Dated 29 November 2022**

Having heard and considered submissions and comments from identified stakeholders on the 2022 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

1. **Introduction**

The Minister of Finance tabled the 2022 Medium Term Budget Policy Statement (MTBPS) on 26 October 2022. The MTBPS was tabled in terms of section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act) as amended by Act No. 13 of 2018 (the Act). The MTPBS is a government policy document that communicates to Parliament and to the country the economic context in which next year’s national budget will be presented, along with government fiscal objectives and spending priorities over the medium term (three-year expenditure period). As required by section 4 (4) (b and c) of the Act, after the tabling of the MTPBS by the Minister of Finance, the Division of Revenue Amendment Bill, Special Appropriation Bill and Adjustments Appropriation Bill were referred to the Committee for considerations and report to the National Assembly (NA). Amongst its responsibilities, as per section 6 (8) of the Act, the Committee is required to consider and report on the following:

* the spending priorities of national government for the next three years;
* the proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years; and
* the proposed substantial adjustments to conditional grants to provinces and local government, if any.

In an effort to deepen democracy, promote good governance, enhance public participation and involvement, the Committee invited the Financial and Fiscal Commission and Parliamentary Budget Office for submissions and comments on the tabled 2022 MTPBS. In addition to the invited stakeholders, the Committee published an advertisement in national and local newspapers from 27 to 30 October 2022 inviting the public to make submissions and comments on the 2022 MTPBS. The Committee held public hearings with interested stakeholders on the Zoom virtual meeting platform on 25 November 2022. Submissions were received from the following stakeholders in response to the aforementioned advertisement:

* Congress of South African Trade Unions;
* Equal Education; and
* Organisation Undoing Tax Abuse.
1. **Economic overview and context**

The 2022 MTBPS was tabled at the time when South Africa was beginning to emerge from shadows of the COVID-19 pandemic and an increase in economic activity was beginning to improve. South Africa’s broad economic recovery was to a larger extent supported by higher global commodity prices, which improved exports and fiscal revenue. South Africa’s real Gross Domestic Product (GDP) growth recovered to 4.9 per cent in 2021 from a low base of negative 6.3 per cent in 2020. However, economic recovery has been hampered by a number of factors, namely; the slow implementation of economic reforms and a series of shocks, including the domestic riots and looting in July 2021, historic flooding in various parts of the country in April 2022, and the escalating power cuts. Despite this witnessed positive growth, the three societal ills of unemployment, poverty and inequality remain a cause for concern.

The 2022 MTBPS was presented when Statistics South Africa (STATSSA) had released employment data for the second quarter of 2022 on 23 August 2022. The Quarterly Labour Force Surveys (QLFS) published by STATSSA painted a slightly favourable picture in as far as employment data is concerned. As at the end of the second quarter of 2022, the number of unemployed persons increased by 132 000 to 8 million compared to the first quarter of 2022. The number of discouraged work-seekers decreased by 183 000 (4.9 per cent) and the number of people who were not economically active for reasons other than discouragement decreased by 452 000 (3.3 per cent) between the two quarters resulting in a net decrease of 635 000 in the not economically active population. These changes in employment and unemployment data resulted in the official unemployment rate decreasing by 0.6 per cent from 34.5 per cent in the first quarter of 2022 to 33.9 per cent in the second quarter of 2022. The unemployment rate according to the expanded definition of unemployment also decreased by 1.4 per cent to 44.1 per cent in the second quarter of 2022.

The second quarter employment/unemployment data again demonstrated that the youth remain vulnerable in the labour market. As at the end of the second quarter of 2022, youth unemployment rates decreased by 1.3 per cent to 46.5 per cent.

As the South African economy accelerates its recovery from the negative economic impact of the COVID-19 pandemic, the July 2021 riots and other structural constraints, National Treasury projects that the South African economy will grow by 1.9 per cent in 2022, compared to the 2.1 per cent projected in the 2022 Budget Review ***(see table 1 below)***. While National Treasury emphasised the need to urgently implement structural reforms, especially in the energy sector to improve the productive capacity and competitiveness of the economy, the country’s growth is projected to average 1.6 per cent from 2023 to 2025.

The International Monetary Fund (IMF), in its October 2022 World Economic Outlook report, acknowledged that the global economy is experiencing a number of turbulent challenges. These include higher inflation, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic, which all weigh heavily on the outlook. Global growth is forecasted to slow down from 6.0 percent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023. According to IMF, this is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China. However, IMF emphasised that the global economy’s future health rests critically on the successful recalibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China. Table 1 below provides an overview of projected economic growth for selected countries over the next years.

**Table 1:** Economic growth in selected countries

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Region/country** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **Percentage** | **Actual** | **Forecast** |  |
| **World** |  **-3.0**  |  **6.0**  |  **3.2**  |  **2.7**  |  **3.2**  |
| **Advanced economies** |  **-4.4**  |  **5.2**  |  **2.4**  |  **1.1**  |  **1.6**  |
|  United States |  -3.4  |  5.7  |  1.6  |  1.0  |  1.2  |
|  Euro area |  -6.1  |  5.2  |  3.1  |  0.5  |  1.8  |
|  United Kingdom |  -9.3  |  7.4  |  3.6  |  0.3  |  0.6  |
|  Japan |  -4.6  |  1.7  |  1.7  |  1.6  |  1.3  |
| **Emerging and developing countries** |  **-1.9**  |  **6.6**  |  **3.7**  |  **3.7**  |  **4.3**  |
|  China |  2.2  |  8.1  |  3.2  |  4.4  |  4.5  |
|  India |  -6.6  |  8.7  |  6.8  |  6.1  |  6.8  |
|  Brazil |  -3.9  |  4.6  |  2.8  |  1.0  |  1.9  |
|  Russia |  -2.7  |  4.7  |  -3.4  |  -2.3  |  1.5  |
| **Sub-Saharan Africa** |  **-1.6**  |  **4.7**  |  **3.6**  |  **3.7**  |  **4.1**  |
| Nigeria |  -1.8  |  3.6  |  3.2  |  3.0  |  2.9  |
| South Africa1 |  -6.3  |  4.9  |  1.9  |  1.4  |  1.7  |
| **World trade volumes** |  **-7.8**  |  **10.1**  |  **4.3**  |  **2.5**  |  **3.7**  |

***Sources:*** *National Treasury 2022 MTBPS and IMF October 2022 World Economic Outlook*

It was against this background that the Committee decided to invite and have engagements with identified stakeholders on the 2022 Medium Term Budget Policy Statement.

1. **Medium term expenditure framework and expenditure priorities**

The 2022 MTBPS emphasises the continued government commitments of reducing fiscal risks in the short term, narrowing the fiscal deficit, stabilising debt, while proposing measures to enhance economic growth and restore funding for infrastructure and service delivery programmes. Government aim to focus on ensuring clear and stable macroeconomic policies, implementing economic reforms while addressing key enablers to growth and state capability. Consolidated budget deficit is projected to narrow from 4.1 per cent of the GDP in 2023/24 to 3.2 per cent of GDP in 2025/26, while gross government debt is projected to stabilise at 71.4 per cent of GDP in 2022/23 – two years earlier and at a lower level than projected in the 2022 budget. Consolidated government spending is projected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, at an average annual growth of 4 per cent. The medium-term changes to spending priorities are largely driven by government’s decision to extend the COVID-19 special relief of distress grant by one year until 31 March 2024.

* 1. **In-year spending adjustments**

Compared with the 2022 Budget estimates, government proposes a net addition of R37 billion to main budget non-interest spending in 2022/23. This consists of R54.1 billion in spending increases, partially offset by declared unspent funds, and projected underspending and contingency reserve drawdowns. The proposed in-year allocations are intended to address balance sheet weaknesses in public entities that are central to economic recovery. SANRAL is allocated R23.7 billion to settle maturing debt and debt-related obligations. A total of R5.8 billion will be allocated to Transnet, half of which is shifted funds to repair infrastructure damaged by the recent floods, and half to repair and maintain freight rail locomotives. Denel will be allocated R204.7 million to reduce contingent liabilities arising from its weak financial position and R3.4 billion if a set of conditions are met to complete its turnaround plan.

In addition, the total in-year spending adjustments amounts to R13 billion (Adjustment Appropriation Bill), inclusive of the total adjusted appropriations per vote and adjusted estimates of direct charges against the National Revenue Fund.

* Unforeseeable and unavoidable expenditure amounting to R6.3 billion, prompted largely by the flood damages in KwaZulu-Natal and Eastern Cape provinces.
* Expenditure earmarked in the 2022 Budget Speech for future allocation totalling R500 million towards the Presidential Employment Initiative (PEI), with the main focus being the digitisation programme for the Department of Home Affairs.
* Rollovers totalling R990 million. The bulk of the rollovers emanate from two votes (Agriculture, Land Reform and Rural Development vote and Communications and Digital Technologies vote) for the roll-out of Phase 2 of the PEI.
* Total declared unspent funds amount to R1.96 billion and is largely driven by the Social Development Vote where R1.8 billion was unspent due to lower than anticipated uptake of the Social Relief of Distress (SRD) grant.
* R1.6 billion for self-financing expenditure from the revenue generating activities of departments to enable them to continue with these activities.
	1. **Expenditure**

Relative to the 2022 national budget, government proposes an increase in the main budget non-interest spending by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25. These adjustments are made mainly to increase the COVID-19 special relief of distress grant, improve investments in infrastructure, and support safety and security, and education and health services. These include the following proposed additions over the next two years:

* R66.9 billion for health, education and provision of free basic services by local government, and a one-year extension of the *COVID-19 social relief of distress grant*.
* R8.9 billion for safety and security.
* R11.3 billion for infrastructure investment, including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.

These proposed spending increases are funded by the improved revenue estimates and an expected drawdown of the 2022 Budget unallocated reserve in 2023/24. The unallocated and contingency reserves cushion the framework from fiscal risks that may materialise over the medium term. The unallocated reserve is increased by R11.3 billion to R41.3 billion in 2024/25. The contingency reserve has also been increased by R2 billion over the next two years.

1. **Division of Revenue**

In terms of functions, provinces are responsible for basic education, health services, roads, housing, social development and agriculture, while municipalities provide basic services such as water, sanitation, electricity reticulations, roads and community services. Provincial and municipal governments face pressures from rising costs of basic and social services over the medium term as government contains spending growth and weak economic growth affects other sources of funding. Over the next three years, government proposes allocating 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government (***see table 2 below***).

**Table 2:** Division of revenue framework

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| **R billion** |  | **Outcome** |  |  **Revised**  |  **Medium-term estimates**  |
| **Division of available funds** |   |  |   |   |  |  |   |
| **National departments** |  **749.8**  |  **790.5**  |  **823.0**  |  **857.9**  |  **817.7**  |  **822.2**  |  **859.1**  |
| *of which:* |  |  |  |  |  |  |  |
| *Provincial indirect grants* |  *2.9*  |  *2.9*  |  *3.7*  |  *4.6*  |  *4.2* |  *4.4*  |  *4.8*  |
| *Local indirect grants* |  *5.6*  |  *4.1*  |  *5.7*  |  *8.2*  |  *9.9*  |  *10.7*  |  *14.0*  |
| **Provinces** |  **613.5**  |  **628.8**  |  **660.8**  |  **684.5**  |  **684.3**  |  **709.5**  |  **743.3**  |
| Equitable share |  505.6  |  520.7  |  544.8  |  560.8  |  556.4  |  576.5  |  602.9  |
| Conditional grants |  107.9  |  108.1  |  116.0  |  123.7  |  128.0  |  133.0  |  140.4  |
| **Local government** |  **123.0**  |  **137.1**  |  **135.6**  |  **154.2**  |  **164.9**  |  **174.6**  |  **183.5**  |
| Equitable share |  65.6  |  83.1  |  76.2  |  87.3  |  95.1  |  102.4  |  109.4  |
| General fuel levy sharing with metropolitan municipalities |  13.2  |  14.0  |  14.6  |  15.3  |  15.4  |  16.1  |  16.8  |
| Conditional grants |  44.2  |  40.0  |  44.8  |  51.5  |  54.4  |  56.1  |  57.3  |
| Provisional allocations not assigned to votes1 |  –  |  –  |  –  |  14.8  |  36.5  |  38.0  |  39.3  |
| Unallocated reserve |  –  |  –  |  –  |  –  |  –  |  41.3  |  47.3  |
| Projected underspending  |  –  |  –  |  –  |  -5.9  |  –  |  –  |  –  |
| **Non-interest allocations** |  **1,486.2**  |  **1,556.4**  |  **1,619.4**  |  **1,705.5**  |  **1,703.4**  |  **1,785.6**  |  **1,872.5**  |
| Debt-service costs |  204.8  |  232.6  |  268.1  |  307.7  |  332.2  |  352.9  |  380.7  |
| Contingency reserve |  –  |  –  |  –  |  5.0  |  6.0  |  6.0  |  10.0  |
| **Main budget expenditure** |  **1,691.0**  |  **1,789.0**  |  **1,887.5**  |  **2,018.2**  |  **2,041.6**  |  **2,144.5**  |  **2,263.2**  |
| *Percentage shares* |   |  |   |   |  |  |   |
| National departments | 50.4% | 50.8% | 50.8%  | 50.6% | 49.1% | 48.2% | 48.1% |
| Provinces | 41.3% | 40.4% | 40.8%  | 40.3% | 41.1% | 41.6% | 41.6% |
| Local government | 8.3% | 8.8% | 8.4%  | 9.1% | 9.9% | 10.2% | 10.3% |

1. *Includes support to Eskom, amounts approved for projects through the Budget Facility for Infrastructure and other provisional allocations*

***Source****: National Treasury (2021) Medium Term Budget Policy Statement*

1. **Spending priorities by function group**

Over the 2023 Medium Term Expenditure Framework (MTEF), spending on community development function, which mainly provides for basic services to households, grows the fastest, averaging 7.2 per cent per year, behind only the economic development function at an annual average of 8 per cent. Over the same period, spending on social development will contract by an average of 2.4 per cent due to the special relief of distress grant concluding in March 2024. Debt-service costs grow at an annual average of 7.3 per cent while the contingency reserve increases from R6 billion in 2023 to R10 billion in 2025/26 **(*See Table 3 below*).** While the allocation to the learning and culture function increases at an annual average of 3.5 per cent over the MTEF, the peace and security function and the general public services function allocations increase at an annual average of 2.7 per cent and 3 per cent respectively, over the same period.

**Table 3:** Consolidated expenditure by function1

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** | **Average** |
| **R billion** | **Outcome** | **Revised** | **Medium-term estimates** |  **annual growth2022/23 – 2025/26** |
| **Learning and culture** |  **413.3**  |  **447.4**  |  **455.6**  |  **473.4**  |  **496.5**  | **3.5%** |
| Basic education |  284.3  |  301.8  |  308.4  |  314.1  |  329.4  | 3.0% |
| Post-school education and training |  118.4  |  134.2  |  135.4  |  147.8  |  155.3  | 5.0% |
| Arts, culture, sport and recreation |  10.5  |  11.5  |  11.7  |  11.5  |  11.8  | 1.1% |
| **Health** |  **257.4**  |  **258.4**  |  **256.1**  |  **267.5**  |  **279.4**  | **2.6%** |
| **Peace and security**  |  **217.1**  |  **227.6**  |  **226.4**  |  **235.4**  |  **246.5**  | **2.7%** |
| Defence and state security |  49.0  |  52.5  |  52.3  |  52.4  |  54.5  | 1.3% |
| Police services |  108.4  |  112.3  |  111.9  |  119.2  |  125.5  | 3.8% |
| Law courts and prisons |  49.1  |  51.7  |  51.4  |  53.6  |  55.9  | 2.6% |
| Home affairs |  10.6  |  11.1  |  10.7  |  10.2  |  10.6  | -1.5% |
| **Community development** |  **208.9**  |  **236.7**  |  **258.7**  |  **274.9**  |  **291.7**  | **7.2%** |
| **Economic development** |  **195.8**  |  **222.9**  |  **237.6**  |  **262.4**  |  **280.8**  | **8.0%** |
| Industrialisation and exports |  40.3  |  41.0  |  41.5  |  42.6  |  43.1  | 1.6% |
| Agriculture and rural development |  27.2  |  29.4  |  29.1  |  30.2  |  31.5  | 2.3% |
| Job creation and labour affairs |  20.6  |  24.9  |  24.5  |  26.2  |  27.3  | 3.1% |
| Economic regulation and infrastructure |  90.9  |  110.2  |  125.0  |  145.1  |  160.1  | 13.3% |
| Innovation, science and technology |  16.7  |  17.4  |  17.5  |  18.2  |  18.8  | 2.6%  |
| **General public services** |  **67.6**  |  **71.4**  |  **73.1**  |  **74.8**  |  **78.0**  | **3.0%** |
| Executive and legislative organs |  14.0  |  15.3  |  16.9  |  16.4  |  17.2  | 3.8% |
| Public administration and fiscal affairs |  45.7  |  47.4  |  47.9  |  49.3  |  51.5  | 2.8% |
| External affairs |  7.9  |  8.6  |  8.4  |  9.0  |  9.4  | 3.0% |
| **Social development** |  **342.8**  |  **365.6**  |  **370.9**  |  **350.2**  |  **340.3**  | **-2.4%** |
| Social protection |  257.4  |  273.6  |  280.0  |  256.4  |  267.9  | -0.7% |
| Social security funds |  85.4  |  92.0  |  90.9  |  93.8  |  72.4  | -7.7% |
| **Payments for financial assets** |  **76.1**  |  **62.6**  |  **25.2**  |  **25.4**  |  **26.5**  |  |
| **Allocated by function** |  **1,779.0**  |  **1,892.6**  |  **1,903.5**  |  **1,963.9**  |  **2,039.7**  | **2.5%** |
| Debt-service costs |  268.1  |  307.7  |  332.2  |  352.9  |  380.7  | 7.3% |
| Unallocated reserve |  –  |  –  |  –  |  41.3  |  47.3  |  |
| Contingency reserve |  –  |  5.0  |  6.0  |  6.0  |  10.0  |  |
| **Consolidated expenditure** |  **2,047.0**  |  **2,205.3**  |  **2,241.7**  |  **2,364.1**  |  **2,477.7**  | **4.0%** |

1. *Consisting of national and provincial departments, social security funds and public entities*

***Source:*** *National Treasury (2022) Medium Term Budget Policy Statement*

The 2022 MTBPS categorises consolidated government expenditure by “spending priorities by function group” namely:

* **Learning and culture:** the learning and culture is made up of the basic and higher education sectors, as well as sports, arts and culture. Over the medium term, provincial education budgets will stabilise as funding is added for compensation of employees to fill teacher vacancies and reduce class sizes, supporting improved learning outcomes. To continue providing nutritious meals to 9 million learners each school day, funding will be added to the *national school nutrition programme conditional grant* over the next three years. Following the recent shift of the early childhood development function from social development to basic education, funding is added for the Department of Basic Education to build its oversight and monitoring capacity, and to improve and expand early childhood development services in provinces.
* **Health:** the public health sector experienced two years of severe strain from the COVID-19 pandemic and disruptions to routine healthcare services. As the immediate pressure from the pandemic eases, COVID-19 vaccinations are being integrated into general health services from separate vaccination sites. Over the MTEF period, the sector will refocus on other core health services and address accumulated backlogs. Additional funds will be provided to alleviate critical funding pressures in areas such as healthcare personnel, medicine, laboratory services, medical supplies, and critical goods and services. Funds will also be provided to address service backlogs such as surgery, oncology, antiretroviral treatment and tuberculosis screening and treatment. In addition, funds will be provided to build the new Limpopo Central Hospital in Polokwane.
* **Social development:** this function includes programmes aimed at income protection and social welfare, and for women, youth and persons with disabilities. The function receives the second-largest share of the consolidated budget over the MTEF period. On 1 October 2022, the old age grant, war veterans grant, disability grant and care dependency grant increased by an additional R10 per month from R1 980 (R2 000 for over 75-year-olds and war veterans) to R1 990 (R2 010 for over 75-year-olds and war veterans).
* **Community development:** the main priority of this function group is to provide basic services to poor households. Funds are allocated for water and sanitation services, household electrification, low-income housing and upgrading of informal settlements, and public transport. The largest component of spending is the local government equitable share allocation to support municipal operations and the provision of free basic services for poor households. Over the medium term, water services infrastructure will be upgraded. Additional funding will be allocated through the Budget Facility for Infrastructure for projects in Nelson Mandela Bay Metropolitan Municipality, Sol Plaatje Local Municipality, Drakenstein Local Municipality and the City of Johannesburg. Bulk water supply projects to be implemented by water boards will also receive funding.
* **Economic development:** this function group supports job creation, industrial development, and inclusive and sustainable economic growth. Over the medium term, about 8.8 per cent of this function group’s allocation will provide for transfers and subsidies to departmental agencies, public corporations and private enterprises. Medium-term priorities primarily support economic reconstruction and recovery through reindustrialisation, employment protection and creation, greening the economy, agriculture and food security, and investment in infrastructure. The Department of Agriculture, Land Reform and Rural Development will reprioritise funds over the MTEF period to help contain the spread of foot and mouth disease, while the Department of Small Business Development will work with municipalities to reduce administrative and regulatory burdens for small, medium and micro enterprises and co-operatives.

Government will also prioritise large-scale investment in infrastructure and capability to enhance the role of the South African National Space Agency, including to support critical climate data and monitoring services. The Department of Tourism has reprioritised funds towards the pilot phase of the Tourism Equity Fund introduced in 2021

* **Peace and security:** over the MTEF period, the peace and security function is allocated additional funding to improve safety and security. The South African Police Service will receive additional funding to increase the number of student constables to improve capacity, mainly in police stations. The departments of Defence and Home Affairs will receive additional funding to enhance border security and territorial integrity. The defence funding also provides for the procurement of equipment and technology that will support operations and for the repair and maintenance of navy defence systems to improve maritime security.

The Department of Justice and Constitutional Development has reprioritised funds to the Financial Intelligence Centre to implement recommendations from the State Capture Commission and the Financial Action Task Force. Funding will also be allocated to the National Prosecuting Authority to increase capacity in specialised tax units and the Investigating Directorate, procure specialist prosecution services for complex matters (especially financial crimes), appoint forensic auditors and accountants to deal with high-priority asset forfeiture matters, establish a digital forensic data centre, and finance increased witness protection operational costs. Additional funding will enable the Financial Intelligence Centre to increase its human resource capacity and help the Special Investigating Unit to initiate civil litigation following the State Capture Commission recommendations.

* **General public services:** this function contributes to building a state that can play a developmental and transformative role. The function has reprioritised funds over the MTEF period from goods and services to cover key policy initiatives and enhance capacity in departments. Funds will be shifted from the Department of Public Works and Infrastructure to the Presidency to increase capacity in the Project Management Office, which supports other government departments to develop programmes that provide work opportunities for youth. The South African Revenue Service will receive additional funds to improve information and communications technology capacity and revenue collection capabilities, and to report on tax administration digital resilience during the COVID-19 pandemic. Funds have been reprioritised over the medium term for the Government Communication and Information System to prioritise campaigns on gender-based violence and femicide, anti-corruption and the economic recovery plan.
1. **Fiscal Risks**

In engaging with government’s proposed spending over the MTEF, the Committee notes the following medium to long-term risks to public finances and outlook as reported in the 2022 fiscal risk statement:

* **Macroeconomic risks:** these risks include slowdown in economic growth, higher global interest rates resulting in higher than anticipated debt services costs, and higher debt trajectory.
* **Expenditure risks:** these risks include higher than anticipated budget wage bill expenditure, large unfunded social expenditure and subnational government activities like the provincial unpaid invoices, the medico-legal claims and the financial position of municipalities.
* **Contingent and accrued liabilities risks:** these risks include government guarantees to SOEs, and the weak financial position of state owned entities.
1. **Submissions on the 2022 MTBPS**

This section provides an overview and summary of all the submissions from identified and interested stakeholders on the 2022 MTBPS.

* 1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) submitted that the 2022 MTBPS was presented when the world economy has been hit by successive external, unforeseeable shocks. These shocks included the COVID-19 pandemic, the war between Russia and Ukraine, and climate disasters. As a result, according to the October 2022 IMF World Economic Outlook, global growth will slow down from 6 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023, reflecting its weakest growth profile since 2001. As a small open economy heavily dependent on commodity exports, South Africa was exposed to the downside of lower global growth. The FFC made the following comments and recommendations with regard to the 2022 MTBPS.

**Expenditure per functional group**

The FFC submitted that consolidated spending was projected to increase from R2.21 trillion in 2022/23 to R2.24 trillion in 2023/24, R2.36 trillion in 2024/25 and finally, R2.48 trillion in 2025/26. This represented a nominal annual average growth of 4 per cent from 2022/23 to 2025/26. The year-on-year increases showed that in the 2023/24 financial year, overall consolidated spending was projected to grow by 1.6 per cent. More robust growth was projected for 2024/25 (5.5 per cent) and 2025/26 (4.8 per cent). However, the FFC cautioned that the growth rates of the outer two years were subject to wide variations. With regard to the expenditure projections over the MTEF, the FFC made the following observations and recommendations:

* Concerning projections for 2023/24, the FFC welcomed the prioritisation of growth in funding directed at the Community Services function as it related to providing free basic services to indigent households. However, it advised that national and provincial governments as well as Parliament should exercise strict oversight over the utilisation of these funds to prevent misuse. This was particularly important given the number of municipalities in financial distress.
* Whilst noting the growth in allocations to basic education, the FFC submitted that shifting the ECD function from Social Development to Basic Education allowed the government to strengthen its investment in ECD. In addition, the MTBPS mentioned that additional funding was being added to the function for ECD to improve monitoring, oversight and service delivery in provinces. The FFC looked forward to more detailed information around these aspects in the 2023 national budget.
* The FFC emphasised that policy certainty was required in the social development sector insofar as finding a permanent and fiscally sustainable solution to providing comprehensive support for economically vulnerable and working-aged individuals.
* Concerning higher education and training, the FFC reiterated its recommendation in its response to the 2022 national budget, which called for the urgent finalisation of a new funding framework for the sector. Furthermore, following the proposal by the ministerial committee on student funding to investigate the matter further, the FFC advised that clear timelines and milestones should be determined.

**Debt Management Risks**

The FFC submitted that high debt-service costs made it more challenging to stabilise government debt, representing a significant risk to the sustainability of public finances because debt-service costs crowd out fiscal space and productive expenditure. As a result, debt-service costs have been revised upward by R5.9 billion compared to the 2022 national budget, increasing to R307.7 billion in 2022/23. The 2022 MTBPS projected that debt-service costs will continue to increase over the medium term, reaching R380.7 billion in 2025/26, or 4.8 per cent of GDP. The FFC further submitted that the uncertain global economic landscape and persistent unfavourable domestic conditions,such as continued energy supply shortages and high domestic interest rates, may negatively impact debt dynamics over the medium term. Therefore, despite the improved fiscal stance, South Africa still faced much uncertainty and challenges ahead concerning its public debt levels, debt-service costs, and the future debt path, especially given that debt-service costs still appear to be escalating.

**Contingent Liabilities**

The FFC noted that in the 2022 MTBPS, contingent liabilities were expected to exceed R1 trillion, posing a significant risk to the fiscus. If materialised, funds will have to be redirected elsewhere, adversely impacting the sustainability of public finances. The risk of materialising contingent liabilities was heightened due to the poor state of many SOCs that relied heavily on government guarantees to sustain their weak financial positions. The FFC observed that government guarantees as a proportion of GDP have more than doubled over the past decade, from 4.5 per cent in 2009/10 to 10.3 per cent in 2019/20. The FFC submitted that a sustained decrease in contingent liabilities and government guarantees will be significant for investor confidence as these liabilities weakened the economic and fiscal position of South Africa. The FFC made reference to the Zondo Commission reports, which detailed corruption and state capture within many SOCs that continued to receive debt relief. The 2022 MTBPS recognised the need to combat corruption, but more urgent institutional reforms, particularly in public procurement, will be needed to ensure the viability of many SOCs. The FFC recommended as follows with regard to contingent liabilities:

* The FFC supported and commended pro-growth fiscal consolidation that aimed to stabilise and reduce government debt and rein in debt-service costs. However, significant global and domestic risks remained and should be mitigated. Therefore, careful attention should be given to the budget and debt financing strategy to slow down the annual growth rate of debt service costs. Furthermore, government should ensure that interest expenditure does not continue to consume fiscal space and crowd out spending on basic services and realising socio-economic rights.
* Weak productivity in expenditure needed to be addressed to create job-enhancing, inclusive growth through quality expenditure and investment-enticing reforms. In addition, the FFC stressed that long-term growth prospects will require addressing structural constraints. To that end, reforms that address vulnerabilities to corruption (such as procurement reform); ensure energy security by enticing private sector investment and fast-tracking the unbundling of Eskom. Lastly, the overall increase in competitiveness of the economy through the reduction of regulatory barriers that support small and medium enterprises (SMEs) was urgently needed. Furthermore, proper expenditure management was also required to prevent fiscal leakages and fruitless spending.

**Public Service Compensation Data**

The FFC submitted that Compensation of Employees (COE) remained one of the most significant expenditure items from the fiscus. According to National Treasury, COE in the public sector absorbed 31.4 per cent of government revenue in 2022/23. This represented a 3.1 per cent decrease from 2019/20 and was part of the government’s deliberate attempt to contain COE costs. Although the FFC commended government’s effort to lower COE, it advised that care should be given to wage negotiations in 2022/23. If the wage agreement exceeded the available budget, this will pose significant challenges to the medium-term fiscal projections.

The FFC further noted that over the MTEF, the consolidated public service wage bill will grow at an annual rate of 3.1 per cent, with Police growing at a rate of 4.1 per cent annually due to the government’s commitment to increase the number of constables in the police force in response to high crime statistics in the country. Whilst government committed to increasing capacity in services such as education, health and police, FFC was of the view that this should be done within the constraints of available budgets to avoid additional pressures on the wage bill. The FFC reiterated its recommendation in its 2021 MTBPS submission that government should develop a long-term plan incrementally to address unsustainable public sector wage bill and that the plan should seek to improve public sector productivity at a lower cost.

The FFC made the following recommendations in terms of the 2022 MTBPS

* The FFC welcomed the 2022 MTBPS and recommends that the government continue to stay consistent in its policy stance towards maintaining fiscal credibility, ensuring fiscal sustainability to minimise economic risks.
* Elevated domestic inflation and rising interest rates may exacerbate existing social inequalities and create vulnerabilities in South Africa. Accordingly, the FFC recommended that medium-term spending be reprioritised towards social and economically inclusive growth-supporting expenditures to mitigate the exacerbation of inequalities and socio-economic vulnerabilities in the long run.
* SOCs continued to drain the fiscus, thus threatening the sustainability of public finances. The FFC however appreciated the need to address SOC's balance sheet weaknesses. The FFC recommended transparent processes regarding fiscal support to SOCs, publicly available reports and conditions, and reforming the evaluation criteria for granting government guarantees to SOCs. This includes establishing a SOC governance framework with public reporting criteria that clearly defines detailed and precise profitability and non-financial objectives for transparency.
* The FFC welcomed government's efforts to stabilise government debt earlier and at a lower rate. However, debt service costs remained very high, signalling the rising cost of borrowing and slow growth. Therefore, the FFC recommended that the debt financing strategy be aligned to economic growth initiatives to slow down the debt service costs and ensure that interest expenditure does not crowd out critical spending in vital functional areas such as health and education. In addition, the FFC recommended government should improve expenditure management by preventing fiscal leakages and fruitless spending.
* The FFC reiterated its recommendation for the urgent finalisation of a new funding framework for higher education and training and local government fiscal framework. Furthermore, 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.
	1. **Parliamentary Budget Office**

The Parliamentary Budget Office (PBO) noted considerable changes in government`s policy priorities. These changes translated into adjusted spending priorities over the medium term. According to the PBO, these policy changes will leverage government`s efforts to reduce debt and at the same time, support initiatives for economic recovery. The decision to extend the SRD grant until March 2024 and the increase on infrastructure spending were cited as welcome developments by the PBO. Spending on infrastructure was reported to have increased from R66.7billion in 2022/23 to R112.5 billion in 2025/26. On the contrary, the PBO cautioned that lack of state capacity to deliver on the infrastructure projects and low progress in addressing structural constraints were not good signs for the economy, considering the fixed investment outlook.

With regard to the increase in revenue, the PBO informed the Committee that the country had a broad tax base and this provided an opportunity for the introduction of tax reforms in order to mobilize resources to increase revenue. The PBO indicated that the government could tax excess profits by companies that used the inflation upsurge to boost profit and make up for the COVID-19 losses.

The PBO welcomed the allocation on spending for safety and security clusters to increase the current number of police and to support the implementation of the State Capture Commission Recommendations in the MTBPS. On the other hand, PBO cautioned that the global outlook presented a rather bleak picture because of the contractionary fiscal and monetary policies. This was based on the impact of the tighter monetary and fiscal policy choices by advanced economies that were likely to increase the risk of global recession and a period of stagnation. Consequently, higher interest rates were introduced in order to fight inflation by curbing demand.

The PBO flagged weaknesses in respect of oversight and reported that some of the government departments do not have performance indicators in the annual performance plans. This made it difficult for the oversight bodies to conduct effective oversight on them. Equally, concerns were raised on the strain placed on the public finances by SOEs, in particularly Eskom. According to the PBO, efforts to reduce government debt were thwarted by the plans to service Eskom`s portion of R400 billion debt. The PBO noted the increase in the Provincial Equitable Share over the 2023 MTEF period from 1.0 per cent to 2.4 per cent. The PBO submission concluded with the following matters for noting by the Committee:

* There must be an exploration of multiple sources of revenue that have the potential to increase government revenue base.
* There must be an ongoing examination of government1s contingent liabilities and exposure to poorly performing SOEs.
* Attention should be given to government departments that do not have performance indicators in their Annual Performance Plans.
* Costs for government`s plan to pay portion of Eskom`s debt must be presented to Parliament.
	1. **Congress of South African Trade Unions**

In its submission, the Congress of South African Trade Union (COSATU) indicated its displeasure on the 2022 MTBPS and related bills for not responding adequately to areas of critical need. This MTBPS was tabled the face of an ailing economy that has had a protracted period of economic stagnation. COSATU submitted that government fell short of curbing the inflation that has had a negative bearing on the workers and also, lacked the practical strategies to stimulate the economy. Despite the shortcomings, COSATU welcomed the fact that there were positive interventions in the policy statement by the Minister of Finance. It also recommended that a more pointed and decisive 2023 national budget should be presented.

COSATU viewed the MTBPS as a missed opportunity and made the following comments and proposals with regard to the Bill:

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| Fuel Price Regime | * COSATU submitted that is was worrying that the Minister did not comment on the 2018 commitment about exploring the ways of dealing with the fuel price.
* COSATU called on National Treasury to reduce the 32 per cent of the fuel price that goes towards taxes and work with the Department of Transport to address the problems at the Road Accident Fund.
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| Debt Level | * COSATU expressed the view that the economic stagnation has led to the increase of the debt level. In view of this, COSATU recommends that there must be initiatives to grow the economy in order to decrease the debt.
* Government should shift from cutting budgets to addressing causes of fiscal crisis, attend to the weak SOEs, tackle corruption and deal with massive unemployment in order resuscitate the economy.
* Welcomed the injection of R37 billion for the frontline departments but also, decried the underspending of a whopping R5.8 billion despite not having adequate resources.
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| Public Sector Wage Bill | * COSATU emphasised that government must make efforts to find amicable solution to the workers` salaries and avert the possible disruptions by workers’ strike.
* The decline in public service headcount was concerning with the nurses and teachers mostly affected. It was, according to COSATU, disheartening that there was a notable decline of the South African Police Service which reduced from 208 000 to 172 000 in 2022.
* Commitment by government to employ 12 000 new recruits was too little considering the resignations, retirements and death of police officers.
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| Industrialisation Programmes | * There must be a demonstrable will to increase the funding of industrial sector for job creation. Much more must be done to address the crises of mass unemployment, poverty and increasing inequality.
* COSATU recommended that there should be interventions to stop de-industrialization and to stop cheap imports and therefore, create more jobs.
* Much more must be done to transform the colonial structure of the South African economy and forging an industrialisation led growth path.
* Concerns were expressed that there was still no explicit commitment to increase the funding to industrial sector masterplans that are supposed to be the backbone of the industrialisation strategy.
* Government must take more decisive interventions to stem the unfolding de-industrialisation and job losses from cheap imports. COSATU called on National Treasury and the South African Reserve Bank to explore partial imposition of capital controls to stem the tide of capital flight.
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| Pension Relief for Financially struggling workers | * COSATU welcomed the progress with regards to allowing highly indebted workers, public and private, to have limited access to their pension funds when in need.
* A Bill providing for this proposed partial withdrawal was before Parliament and some of its final details need to be finalised between the trade union, National Treasury and Parliament.
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| Revenue Collection | * COSATU commended the work done by the employees of the South African Revenue Service (SARS) who have managed to generate an additional R83 billion in revenue for the state and a target of R94 billion in 2023 and R99 billion in 2024.
* More resources should be allocated to SARS to support their efforts to fight tax avoidance and conduct lifestyle audits of politicians, senior managers in the state and the private sector.
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| Corruption | * The MTBPS and Bill were not prioritising the fight against corruption. The country’s law enforcement agencies are not fully equipped to fight white collar crime and cybercrime.
* Police stations do not have enough working tools to fix the crime situation that has left many people feeling insecure and leading to others taking law into their own hands.
* An effective plan was needed to fund a whistle-blower protection programme.
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| SOEs | * COSATU was concerned about the silence in the MTBPS and the Adjustments Appropriation Bills regarding the South African Post Office (SAPO).
* There was a need to support SAPO in order to halt 6 000 retrenchments and for it to pay workers outstanding salaries.
* There was a need for a new model and turn around plans for South African Broadcasting Corporation as well other distressed SOEs.
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* 1. **Equal Education**

Equal Education (EE) emphasised the fact that basic education was a fundamental human rights matter under the Constitution and that government has the obligation to actively take steps to promote and fulfil this right. EE further explained that basic education consisted of certain core components, including safe and sufficient infrastructure, transport, as well as learning and teaching materials such as textbooks and furniture. EE submitted that South Africa’s schooling system was in crisis, with persisting systemic inequalities leaving many schools with overcrowded classrooms, burnt-out teachers, unsafe and deteriorating school infrastructure, and a lack of basic services such as sanitation, water, and electricity; and that poor black learners living in rural areas were disproportionately disadvantaged. The latest available statistics from the Department of Basic Education (DBE) reportedly showed that currently 2 130 schools still had plain pit toilets as their only form of sanitation, and 5 386 had unreliable water supply.

The COVID-19 pandemic had also set back gains in basic education; exposed the deep inequalities in the schooling system, and highlighted the critical need for safe and proper infrastructure in the sector.

EE was concerned that despite the situation described above, the 2022/23 MTEF showed a continuation of existing trends in basic education funding, not keeping pace with inflation, growing learner enrolment, and the real costs of providing education services across the provinces. The additional allocation of R3.7 billion to basic education for the current financial year, as well as increased medium-term estimates, were erased by higher-than-expected interest rates, as funding levels did not keep up with inflation over the medium term. Real consolidated basic education funding was anticipated to experience negative growth from 2022/23 until 2025/26 and when rising learner enrolment was factored in, spending per learner declined even more sharply over the following three years.

While the additional R116.8 million allocated to the Education Infrastructure Grant (EIG) to repair schools affected by floods in KwaZulu-Natal and the Eastern Cape was welcomed, EE reported that it still fell short of the current infrastructure backlog's funding needs. The DBE had reportedly stated that it would need R442 million to address the flood damage to schools in KwaZulu-Natal alone; and that an additional R5 billion would be needed to address the overcrowding crisis in schools across the country. These figures did not factor in the building maintenance crisis, with existing functional school infrastructure across the country risking falling into disrepair, further deepening the existing school infrastructure crisis. EE was deeply concerned that the DBE and provincial education departments were not meeting their targets for school infrastructure grants. In the first half of the 2022/23 financial year, only six out of the targeted 30 schools for the year had been built through the School Infrastructure Backlogs Grant (SIBG); only 149 out of the targeted 450 schools had been provided with sanitation facilities; and only 19 out of the targeted 50 schools had been provided with water.

EE was further concerned that, while education continued to be one of government’s largest spending items, basic education had received an increasingly smaller share of government’s overall spending between 2016 and 2020; and, while the percentage had begun to increase in 2021, there has not been a return to the pre-COVID-19 division of revenue. EE called for the basic education sector to receive adequate and progressive government funding, which kept up with inflation, the cost of providing educational services, and growing learner enrolment. In addition, more and targeted investments was needed in certain schools and communities.

EE further reported that the basic education system suffered from endemic under-spending, and irregular, fruitless and wasteful expenditure, impeding government’s ability to provide an equal and quality basic education for all learners and impacting the ability of basic education to advocate for additional funding from National Treasury. EE reported that under-spending was often the result of a lack of capacity to effectively plan and implement projects. In addition, the current outstanding balance of identified irregular expenditure that the DBE has not dealt with, totalled R6.6 billion.

EE was concerned that Parliament, and in particular the Committees, were falling short in key areas, including that Committees relied too heavily on the departments they watched over for information regarding their spending; executive decisions seemed to be rubber stamped; public participation, most notably on the budget, remained a tick-box exercise; and, where Committees made recommendations to government, the departments were rarely held accountable if the recommendations were not implemented.

Equal Education requested the Committee to do the following:

* Reject the 2022 MTEF, and call for a budget for basic education that grows in line with inflation and learner enrolment;
* Call on National Treasury to adopt a human rights-based budgeting approach that prioritises socio-economic rights like quality basic education;
* Take its oversight responsibilities seriously, by actively engaging the departments on how they spend their money, in particular basic education; and institute public hearings for the Budgetary Review and Recommendations Reports (BRRR)s and create consequences for departments that do not follow its recommendations, and seek increased consultation with civil society and the public on their findings on government spending;
* Ensure that the DBE and provincial education departments use their money efficiently and effectively; and
* Work in the public's interest by implementing the Zondo Commission recommendations on parliamentary practice.
	1. **Organisation Undoing Tax Abuse**

The Organisation Undoing Tax Abuse (OUTA) called for government to procure locally manufactured vehicles. It submitted that the silence on this initiative indicated government’s reluctance to adopt robust economic measures to improve the economy. OUTA further called on government to reduce the vehicle allowances for politicians at all levels of government.

OUTA welcomed the promise that the National Prosecuting Authority (NPA) Investigating Directorate will be permanent and the commitment to increase the NPA budget from 2023/24 financial year. It mentioned, in particular, the proposed increases with regard to specialised tax units, for specialist services and the promise of the establishment of a digital forensic data centre and increased witness protection funds. OUTA submitted that it wanted to see considerable strengthening of the resources and capacity at NPA to implement the recommendations of the Zondo Commission, which were aimed at strengthening institutional, governance, and accountability mechanisms in the country. The current annual budget of R4.9 billion for the NPA was insufficient to achieve the priorities listed in the 2022 MTBPS and the President’s response to state capture. OUTA compared the NPA’s allocation to the budget for VIP Protection Services and Static Protection in the Police and highlighted the disparity which showed the priorities of government. Justice and Constitutional Development has reprioritised funds to the Financial Intelligence Centre to implement recommendations from the Zondo Commission. OUTA welcomed this but opined that this should not have to be deducted from other law enforcement functions. OUTA further welcomed the additional reprioritisation for court security, replacement computer equipment, procuring vehicles for provinces, and enhanced capacity at the Thuthuzela care centres.

OUTA noted the promise of additional resources in 2023 to the country’s security forces to take the fight against those who threaten South Africa’s peace, with a promise of 15 000 additional constables over the next three years. OUTA welcomes this and stated that it hoped that the budget will also include sufficient resources for the police to operate.

With regard to basic education, OUTA submitted that the realisation of the right to basic education will regress under austerity budgets. It submitted that the decline in real expenditure on education was concerning. It noted that vacant teacher jobs and overcrowded classrooms combined with the commodification of education through private schools mean that the existing gap in the quality of education will continue to grow. OUTA submitted that government needed to derive sufficient return on investment for the funds that were invested in education and suggested that school principals, school governing bodies and teachers must have performance targets. Furthermore, the OUTA felt strongly that the Grade 9 exit certificate must be prioritised to create multiple exit pathways for youth. It also welcomed the promise of additional funding in 2023/24 for the national school nutrition programme conditional grant and for improving and expanding early childhood development (ECD) programmes. OUTA stated that the ecosystem of ECD model needed to be strengthened to ensure all stakeholders cooperate for the transition of this programme from Social Development to Basic Education worked effectively. OUTA looked forward to more detailed information about these aspects in the 2023 national budget.

OUTA made reference to the Infrastructure Fund and posited that government undertook to contribute an amount R100 billion over 10 years to this initiative. However, this has not happened and instead, every year the budget plans funding over the MTEF and every year the MTBPS removed it. OUTA submitted that thus far, not a rand has been used as far as it could tell. The 2022 national budget allocated R4.197 billion for 2022/23, R15.428 billion for 2023/24 and R7.869 billion for 2024/25. The 2022 MTBPS deleted this year’s funds and halved the following years’ allocation, promising to make it up in future years. To this end, OUTA questioned the purpose of the Infrastructure Fund and also asked whether it as merely used as a contingency fund. In conclusion, it submitted that it would like to see this fund used not just for new infrastructure, but also for repairs to infrastructure such as water supply systems and water treatment works that have been left to collapse.

1. **Committee observations and findings on the 2022 MTBPS**

The Standing Committee on Appropriations, having considered the 2022 Medium Term Budget Policy Statement, and having engaged with the various stakeholders, makes the following findings and observations:

* 1. The Committee notes and welcomes that the 2022 MTBPS emphasises the continued government commitments of reducing fiscal risks in the short term, narrowing the fiscal deficit, stabilising debt, while proposing measures to enhance economic growth and restore funding for infrastructure and service delivery programmes. Furthermore, the Committee notes that over the MTEF, government aims to focus on ensuring that clear and stable macroeconomic policies, implementing economic reforms while addressing key enablers to growth and state capability. The Committee is of the view that while there is a need for government to spend, particularly on social services and health, the stock of government debt should remain at sustainable and manageable levels.
	2. The Committee notes and welcomes that over the next three years, government proposes allocating 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government. However, the Committee remains concerned about the inability of government institutions’ ability to spend appropriated funds. The Committee emphasises the fact that underspending on appropriated funds does not only undermine service delivery but also raises questions about Parliament’s ability to appropriate funds to areas where they are needed the most.
	3. The Committee notes and remains concerned about the overall fiscal risks, particularly those that relate to state owned companies’ guarantee exposure, the financial position of the Road Accident Fund and non-payment of invoices within 30 days by provinces, and the financial position of municipalities. The Committee urges government to speed-up reforms and interventions in SOE’s so that these institutions begin to deliver on their respective mandates in an efficient and economic manner, thereby allowing government to refocus government finances on other urgent needs of the country. Furthermore, the Committee argues that government must ensure compliance with the payment of invoices within the government set regulations of 30 days.
	4. The Committee notes that relative to the 2022 national budget, government proposes an increase in the main budget non-interest spending by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25, mainly to increase the COVID-19 special relief of distress grant, improve investments in infrastructure, and support safety and security, and education and health service. The Committee notes and welcomes government’s decision to extend the COVID-19 special relief of distress grant by one year until 31 March 2024.
	5. The Committee notes that the South African economy is projected to grow by 1.9 per cent in 2022, compared to the 2.1 per cent projected in the 2022 Budget Review. The Committee would like to urge government to accelerate the implementation of the much needed structural reforms, especially in the energy sector to improve the productive capacity and competitiveness of the economy. However, the Committee also notes that the South African economic recovery was hampered by a number of factors, including the slow implementation of economic reforms, domestic riots and July 2021 unrests, historic flooding in various parts of the country in April 2022, and the escalating power cuts.
	6. The Committee notes that the proposed in-year allocations are intended to address balance sheet weaknesses in public entities that are central to economic recovery, wherein funds are allocated to various state owned companies. The Committee takes SOCs as very important and having a crucial role to play in ensuring that government achieves its primary objectives of reducing unemployment, poverty, and inequality.
	7. The Committee notes the submission by the FFC that SOCs continued to drain the fiscus, threatening the sustainability of public finances. The Committee also supports the recommendation by the FFC that there is a need for a transparent processes regarding fiscal support to SOCs, reports should be made public, including the establishment of SOC governance framework with public reporting criteria that clearly defines detailed and precise profitability and non-financial objectives for transparency.
	8. The Committee notes and supports governments proposed R6.3 billion in unforeseeable and unavoidable expenditure, prompted largely by the flood damages in KwaZulu-Natal, Eastern Cape and Western Cape provinces. The Committee welcomes these government interventions that will ensure quick responses to the rehabilitation and reconstruction of infrastructure in the affected areas. Furthermore, the Committee would like to implore on government to ensure speedy distribution of these fund to the affected areas in order to ensure that intended beneficiaries receive the required assistance timeously.
	9. The Committee notes and welcomes the proposed rollovers of R990 million, particularly towards the votes of Agriculture, Land Reform and Rural Development and Communications and Digital Technologies for the roll-out of Phase 2 of the Presidential Employment Initiatives. However, the Committee would like to re-emphasise on the need for a framework or standard guideline on the types of jobs to be created with a benchmark remuneration standard for each job category to avoid inconsistences and potential abuse of these funds. Given the recent experience on the distribution of food parcels, the Committee would like to reemphasise that National Treasury and the Presidency should have a well-defined approach to the implementation of this scheme, to ensure uniformity across all departments.
	10. The Committee notes with concerns the total declared unspent funds totalling R1.96 billion, largely driven by the Social Development Vote where R1.8 billion was unspent due to lower than anticipated uptake of the Social Relief of Distress (SRD) grant. Given the mandate of the Department of Social Development and its entire portfolio, the Committee is concerned about the shifting of these funds. The Committee is of the view that the Department of Social Development should put systems in place and do more in reaching out to potential beneficiaries than underspending on social assistance, when the country has this high levels of unemployment, poverty and inequality.
	11. The Committee notes and welcomes the additional allocation towards the peace and security function over the MTEF, wherein the South African Police Service will receive additional funding to increase the number of student constables to improve capacity, mainly in police stations, while the departments of Defence and Home Affairs receive additional funding to enhance border security and territorial integrity. The Committee views this function as critical in ensuring that there is peace and security within the borders of South Africa. This additional allocation is welcomed considering the high levels of crime within the country.
	12. The Committee notes and agrees with the submission by Equal Education (EE) that basic education consisted of certain core components, including safe and sufficient infrastructure, transport, as well as learning and teaching materials such as textbooks and furniture. The Committee further notes the submission by EE that South Africa’s schooling system was in crisis, with persisting systemic inequalities leaving many schools with overcrowded classrooms, burnt-out teachers, unsafe and deteriorating school infrastructure, and a lack of basic services such as sanitation, water, and electricity; and that poor black learners living in rural areas were disproportionately disadvantaged. The Committee is in agreement with EE and will continue its engagements with all the relevant stakeholders in order to improve the current situation.
	13. The Committee notes with concerns the submission by EE that the latest available statistics from the Department of Basic Education reportedly showed that currently 2 130 schools still had plain pit toilets as their only form of sanitation, and 5 386 had an unreliable water supply. The Committee urges the Department of Basic Education to implement and finish these projects. DBE should also report quarterly to Parliament about progress and it should also have timeframes for the completion of these projects.
	14. The Committee notes the submission by EE that the 2023 MTEF showed a continuation of existing trends in basic education funding, not keeping pace with inflation, growing learner enrolment, and the real costs of providing education services across the provinces. However, the Committee is of the view that the challenges of basic education are not funding related but also have more to do with the department’s inability to effectively spend allocated resources and properly plan for the eradication of inappropriate school infrastructure.
1. **Recommendations**

The Standing Committee on Appropriations having considered the 2022 Medium Term Budget Policy Statement, recommends as follows:

* 1. That the Minister of Finance and the Presidential Management Office ensure that the funds allocated towards the Presidential Youth Initiatives are spent within the required guidelines and frameworks in order to avoid potential abuse and corruption.
	2. That the Minister of Finance, working with all stakeholders, ensures that National Treasury provides for a transparent processes regarding fiscal support to SOCs, reports should be made public, including the establishment of SOC governance framework with public reporting criteria that clearly defines detailed and precise profitability and non-financial objectives for transparency.
	3. The Minister of Finance, working with all affected stakeholders, ensures that National Treasury speedily releases disaster relief funding in order to minimise the social and economic impact to affected communities.
	4. The Minister of Cooperative Governance and Traditional Affairs ensures that disaster Management Centre closely monitor funding allocated for disaster relief and ensures that these relief packages are clearly communicated to affected communities. Furthermore, the Minister must ensure that the Department put in place stringent oversight mechanisms of this proposed allocation to ensure effective and efficient spending of these allocation, and eliminate the possibility of corruption at the expense of the victims of these disasters.
	5. The Minister of Basic Education must engage and share their detailed plan with Equal Education and other interested stakeholders on the eradication of inappropriate schools’ infrastructure.
	6. The Committee encourages departments to own their buildings rather than leasing them at exorbitant fees.
	7. Small businesses are very important for economic development, recovery and employment creation. The Committee urges the Minister of Finance to substantially increase the budget of this Department of Small Business Development during the 2023 national budget. This will ensure that Department of Small Business Development plays its critical role in the economy.
	8. Economic transformation and Broad-Based Black Economic Empowerment are Constitutional imperatives. We urge the Minister of Finance to announce funding in the 2023 national budget for this purpose.
	9. The Committee urges the Minister of Finance to finalise the Public Procurement Bill with explicit localisation and economic empowerment imperatives.
	10. The Committee welcomes the extension of the SRD grant with one more year. However, to create certainty for the Department of Social Development and South African Social Security Agency, the Committee recommends the extension of SRD grant for the next three years while a permanent security programme is being finalised.
	11. The South African Post Office (SAPO) plays a crucial role in the economy of South Africa, especially among the poorest of the poor. There is a need for recapitalisation of SAPO and the Minister of Finance, in consultation with the Minister of Communication and Digital Technologies, should finalise the recapitalisation strategy and present this in the 2023 national budget.
	12. The Committee is concerned about the overall underspending on budget allocations, it therefore urges all government departments, agencies and SOEs to report to Parliament about what they are doing about project management and contract management skills to improve on their spending.
1. **Conclusion**

The responses and implementation plans by the relevant Executive Authorities to the recommendations, as set out in section 10 above, must be sent to Parliament before the tabling of the 2023 national budget by the Minister of Finance.

Report to be considered.