**Report of the Standing Committee on Appropriations on the Division of Revenue Bill [B2–2023] (National Assembly – Section 76), Dated 17 March 2023.**The Standing Committee on Appropriations (the Committee), having considered the ***Division of Revenue Bill [B2-2023]*** (National Assembly), referred to it on 17 March 2023 and tagged as a section 76 Bill, reports as follows:

1. **Introduction**

Section 214(1) of the Constitution of 1996 (the Constitution) requires that a Division of Revenue Act (DoRA) determines the equitable division of nationally raised revenue among the three spheres of government (National, Provincial and Local). This is intended to foster transparency in the sharing of nationally raised revenue and ensure smooth intergovernmental relations. The Intergovernmental Fiscal Relations Act, No. 97 of 1997 prescribes the process for the determination of an equitable sharing and allocation of revenue raised nationally. Sections 9 and 10(4) of this Act set out the consultation process to be followed with the Financial and Fiscal Commission, including the process of considering recommendations made with regard to the equitable division of nationally raised revenue.

In giving effect to section 73 of the Constitution, the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Money Bills Act) as amended by the Money Bills Amendment Procedure and Related Matters Amendment Act No.13 of 2018 was enacted. In line with Section 7(1& 3) of the Money Bills Act and section 27 of the Public Finance Management Act No. 1 of 1999 (PFMA), the Minister of Finance tabled the 2022 National Budget including the 2023 Division of the Revenue Bill (the Bill) on 22 February 2023. The Bill was then referred to the Committee on 8 March 2023 in line with Section 9(1) of the Money Bills Act.

Subsequent to the Bill being referred, the Committee received briefings from National Treasury and the Parliamentary Budget Office. The Committee also had engagements with the Financial and Fiscal Commission as required by Section 9(7)(a) of the Money Bills Act. Furthermore, briefings were received from the South African Local Government Association, as required by Section 214(2) of the Constitution of the Republic, as well the Department of Cooperative Governance and Traditional Affairs.

In line with section 9(5)(b) of the Money Bills Act, the Committee is required to hold public hearings on the Division of Revenue Bill. To this end, adverts calling for public submissions on the Bill were published in regional and local print media from 25 February to 3 March 2023. Public hearings on the Bill were held via the Zoom virtual meeting platform on 14 March 2023 with the following parties who had made submissions:

* Congress of South African Trade Unions;
* Amandla.mobi;
* Budget Justice Coalition;
* Section 27;
* Rural Health Advocacy Project; and
* TB Accountability Consortium.

1. **Overview of Division of Revenue Bill 2023**

National government transfers more than half of nationally raised revenues to the nine provinces and 257 municipalities so they can perform their mandated functions. The 2023 Budget strikes a balance between building institutional capacity and ensuring real growth in transfers to provinces and municipalities to meet the needs of growing populations.

The 2023 Budget increases allocations for all three spheres of government to assist with urgent spending pressures. Over the medium term, direct provincial allocations will increase by R92.7 billion to R2.17 trillion. This increase consists of R76.9 billion added to the provincial equitable share and R15.8 billion added to direct conditional grants. Local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to local government to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in health, education and basic services, where the costs of providing services are rising.

The overall medium-term fiscal strategy priorities reducing the budget deficit and stabilising debt as a share of GDP, supporting economic growth, and reducing fiscal and economic risks. The specific medium-term strategy aims to:

* Achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
* Support economic growth by maintaining a sustainable fiscal stance and directing resources towards infrastructure and other policy priorities.
* Reduce fiscal and economic risks, including through building fiscal buffers for future shocks, providing targeted conditional in-year support to key public entities and providing debt relief to Eskom with strict conditions.

**Table 1** below indicates overall share of nationally raised revenue between national, provincial and local spheres of government for 2023/24, 2024/25 and 2025/26 financial years respectively.

**Table 1:** Equitable Division of Revenue Raised Nationally

|  |  |  |  |
| --- | --- | --- | --- |
| **Spheres of Government** | **Column A** | **Column B** | |
| **2023/24** | **Forward Estimates** | |
| **2024/25** | **2025/26** |
| National allocations**1,2** | **R’000**  1 370 506 087  567 527 713  96 546 258 | **R’000**  1 446 672 800  587 499 698  103 772 035 | **R’000**  1 542 867 018  614 270 842  109 368 064 |
| Provincial allocations |
| Local government allocations |
| **Total allocations** | **2 034 580 058** | **2 137 944 533** | **2 266 505 924** |

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 allocation*
2. *The direct charges for the provincial equitable share are netted out*

***Source: National Treasury (Division of Revenue Bill: 2023)***

* 1. **Main Budget Allocation**

Over the next three years, of the funds available after providing for debt-service costs and the contingency reserve, 48.6 per cent is allocated to national government, 41.5 per cent to provincial government and 10 per cent to local government. National transfers to the provinces will increase from R695.1 billion in 2023/24 to R754.7 billion in 2025/26, growing at an average annual rate of 2.8 per cent. In 2023/24, a total of R567.5 billion is allocated to the provincial equitable share and R127.5 billion to conditional grants.

Allocations to local government increase by R14.3 billion over the medium term. Direct allocations to municipalities grow just above inflation, at an average annual rate of 5.9 per cent, while indirect allocations grow at an annual average rate of 4.3 per cent. Table 2below highlights the overview of the division of nationally raised revenue between the period 2019/20 and 2025/26.

**Table 2:** Division of nationally raised revenue



1. *Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations*

***Source: National Treasury (Budget Review: 2023)***

The division of revenue redistributes substantial resources from urban areas to fund rural services, which are often provided at high cost. It also subsidises services to millions of poor households in towns and cities through allocations to urban municipalities and provinces. Metropolitan municipalities account for 70.1 per cent of personal income tax revenue but receive only 32.6 per cent of local government transfers. In contrast, the 61 mostly rural local municipalities account for only 5.7 per cent of personal income tax revenues but receive 27.3 per cent of transfers to local government.

Changes to conditional grants in the 2023 Budget include the discontinuation of the conditional *emergency housing grants* for provinces and municipalities. The baselines of these two grants are shifted to the Department of Human Settlements. This will allow the department to respond quickly in the event of an emergency housing need. Over the 2023 MTEF period, R1.6 billion has been allocated to the programme. This includes R523.3 million allocated in 2023/24, R546.8 million allocated in 2024/25 and R571.3 million allocated in 2025/26.

1. **Provincial allocations**

Provincial government receive two forms of allocations from nationally raised revenue; the equitable share and conditional grants. Provinces are responsible for providing social services, including public basic education for 13.4 million learners and healthcare for 50.8 million South Africans who do not have private insurance. Most recipients’ access these services free of charge or at very low cost. Provinces do not have significant taxation powers, and transfers through division of revenue accounted for about 97 per cent of provincial revenues in 2023/24. National transfers to provinces increase from R695.1 billion in 2022/23 to R720.5 billion in 2024/25, growing at an annual average of 2.8 per cent over the MTEF to R754.7 billion in 2025/26. Over the 2023 medium-term, a total of R1.8 trillion is allocated through the provincial equitable share and a total of R400.9 billion is allocated though conditional grants, over the same period.

Over the MTEF period, R31.1 billion is added for employee compensation in the provincial equitable share for the carry-through costs of the 2022/23 public-service wage increase. Of this amount, R10.2 billion is added in 2023/24, R10.4 billion in 2024/25 and R10.5 billion in 2025/26. An additional R20 billion goes to the education sector over the medium term.

In the health sector, R23.5 billion is added over the medium term. This funding will be used for antiretroviral therapy and to address backlogs in tuberculosis and other healthcare services, mitigate wage pressures, and fund laboratory services, medicine and other goods and medical supplies. In 2023/24, R7.5 billion is allocated, followed by R7.8 billion in 2024/25 and R8.1 billion in 2025/26.

* 1. **Proposed changes to provincial equitable share allocations** 
     1. **Responding to existing spending pressures**
* A proposed total of R20 billion is added to help provincial health departments to cover shortfall in compensation budget within the sector (R5.7 billion in 2023/24, R6.7 billion in 2024/25, and R7.6 billion in 2025/25).
* A proposed total of R23.5 billion is added to the to the provincial health departments for compensation of employees, health services backlogs including antiretroviral therapy and TB, laboratory services, medicine and other goods and medical supplies (R7.5 billion in 2023/24, R7.8 billion in 2024/25, and R8.1 billion in 2025/26).
* A proposed total of R31.1 billion is added for the carry through costs following the implementation of the 2022/23 public-services wage increase (R10.2 billion in 2023/24, R10.4 billion in 2024/25, and R10.5 billion in 2025/26).
* A proposed total of R631 million is added in 2023/24 to fund arrears in the compensation of izinduna in KwaZulu-Natal.
  + 1. **Budget approved through the Budget Facility for Infrastructure (BFI)**
* A proposed total of R1.8 billion is added through the Budget Facility for Infrastructure (BFI) for the Coega Special Economic Zone for building of a new bulk sewer connection pipeline, upgrading bulk infrastructure and building critical water (return affluent) infrastructure (R298 million in 2023/24, R632 million in 2024/25 and R848 million in 2025/26)
  1. **Proposed changes to provincial grant allocations** 
     1. **Changes to the education sector grants over the MTEF**
* A proposed total amount of R1.6 billion is added to the *Early Childhood Development grant* over the MTEF to increase the number of children accessing the early childhood development subsidy, provide pre-registration support to early childhood development centres, and pilot a nutrition support programme and a results-based service delivery model.
* A proposed total amount of 1.5 billion is added to the *education infrastructure grant* through the BFI for the Gauteng Schools Project. Funding is made up of R495 million in 2023/24, R503 million 2024/25 and R498 million in 2025/26.
* A proposed total amount of R283 million is added in 2023/24 for repairing school infrastructure damaged by the April 2022 floods in KwaZulu-Natal and the Eastern Cape.
* A proposed total amount of 1.5 billion is added to the *national school nutrition programme grant* to ensure that the meals provided to almost 9 million learners meet the nutritional requirements.
  + 1. **Changes to the transport sector grants over the MTEF**

A proposed total amount of R10.8 billion is added to the *provincial road maintenance grant*. This proposed allocation consists of:

* A proposed total amount of R6.8 billion to address the refurbishment backlog of provincial roads (R1.2 billion in 2023/24, R2.3 billion in 2024/25 and R3.4 billion in 2025/26);
* A proposed total amount of R3.7 billion added through the BFI to build rural bridges under the Welisizwe Rural Bridges Programme (programme funding is made up of R1 billion in 2023/24, R1.3 billion in 2024/25 and R1.4 billion in 2025/26. This proposed funding allocation is approved through BFI; and
* A proposed total amount of R307 million for the carry through costs for the repairs of damaged provincial roads in the Eastern Cape and KwaZulu-Natal resulting from the April 2022 floods.
  + 1. **Changes to the agricultural sector grants over the MTEF**

A proposed total amount of R153 million is added to the *comprehensive agricultural support programme grant* for agri-hubs in KwaZulu-Natal. This proposed funding allocation is made up of R8 million in 2023/24, R86 million in 2024/25 and R58 million in 2025/26, approved through the BFI.

* + 1. **Changes to the health sector conditional grants over the MTEF**

In order to align with cash flow requirements on the building of the Limpopo Central Hospital, the BFI funding within the *health facility revitalisation grant* component of the *National Health insurance indirect grant* has been rescheduled, with a net increase of R629 million brought forward over the medium term. The current baselines allocation are proposed to be rescheduled with the following amounts -R372 million in 2023/24, R432 million in 2024/25 and R569 million in 2025/26.

* + 1. **Changes to the human settlements grants allocation over the MTEF**

A proposed total amount of R1.1 billion is shifted from the *Provincial Emergency Housing grant* to the vote of the national Department of Human Settlements following the grant’s closure. This shift is intended to give the Department of Human Settlements the flexibility to respond to housing emergencies timeously.

1. **Local government fiscal framework and proposed allocations**

Funds raised by national government are transferred to municipalities through conditional and unconditional grants. The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere. The framework refers to all resources available for municipalities to meet their expenditure responsibilities. National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues raised through their own revenue generating powers. Between 2017/18 and 2021/22, local government’s own revenues accounted for an average of 82 per cent of total municipal revenues. However, revenue-raising capacity varies significantly, with poor rural municipalities receiving most of their revenue from transfers. Direct transfers to local government over the medium term accounts for 10 per cent of national government’s non-interest expenditure. When indirect transfers are added, total spending on local government increases to 10.5 per cent of national government’s non-interest expenditure.

Over the MTEF, national transfers to local government increases from R164 billion in 2023/24 to R174.4 billion in 2024/25, growing at an annual average of 7.4 per cent per annum to R183.3 billion in 2025/26. Over the MTEF, a total of R309.7 billion is allocated through the local government equitable share, whilst a total of R163.6 billion is allocated through conditional grants. The general fuel levy sharing with the metropolitan municipalities amounts to a total of R48.4 billion, increasing at an annual average of 3.2 per cent over the same period.

In 2023/24, R164 billion is allocated as direct transfers to local government, while a further R8.5 billion is allocated to be spent by national departments on behalf of municipalities. Of the direct transfers, 68.3 per cent will be transferred as unconditional funds for municipalities to use according to the priorities determined by their councils through their budget processes. The remaining 31.7 per cent will be transferred through conditional grants. In 2023/24, government is funding free basic services to 11.2 million households at a cost of R70.9 billion.

* 1. **Changes to local government equitable share allocation**

Over the medium term, R8.1 billion is added to the *local government equitable share* to increase coverage of the provision of free basic services (R2.5 billion in 2023/23, R2.3 billion in 2024/25 and R3.3 billion in 2025/26).

* 1. **Proposed changes to the local government grant allocations over the MTEF**

**Public Transport Network Grant:** a proposed total amount of R21 million in the outer years is reprioritised from this grant to fund the rollout of the single integrated ticketing system (R8 million in 2024/25 and R13 million in 2025/26).

* + 1. **Budget Facility for Infrastructure (BFI) proposed rescheduling**
* **Public Transport Network Grant:** a proposed total amount of R461 million is added to the *public transport network grant* to align funding with the revised implementation plan and cash flow projections for the City of Cape Town’s MyCiTi public transport network project, funded from the BFI (BFI-rescheduling).
* **Regional Bulk Infrastructure Grant:** a proposed total amount of R136 million is reduced from the direct *regional bulk infrastructure grant* in 2023/24, while R1.4 million is added in 2024/25 to align funding with the revised implementation plan and cash flow projections for George Local Municipality’s portable water security and remedial works project, funded from the BFI.
  + 1. **Budget Facility for Infrastructure (BFI) proposed new allocations**
* **eThekwini Metropolitan Municipality:** a proposed total amount of R88 million in 2023/24 and R118 million in 2024/25 is allocated to the eThekwini metropolitan municipality for the implementation of phase 1 of the Avoca Node Programme through the *urban settlement development grant*.
* **City of Johannesburg**: a proposed total amount of R385 million in 2024/25, R654 million in 2024/25 and R963 million in 2025/26 is allocated to the City of Johannesburg for the implementation of the Lufhereng Mixed Use Development Programme through the *urban settlement development grant*.
* **Sol Plaatje Local Municipality**: a proposed total amount of R86 million in 2023/24, R492 million in 2024/25 and R574 million in 2025/26 is allocated to the Sol Plaatje Local Municipality to refurbish and renew old water supply infrastructure through the *regional bulk infrastructure grant*.
* **Drakenstein Local Municipality:** a proposed total of R305 million in 2023/24, R593 million in 2024/25 and R481 million in 2025/26 is allocated to the Drakenstein Local Municipality to upgrade sanitation infrastructure through the *regional bulk infrastructure grant*.
* **Nelson Mandela Bay Metropolitan Municipality:** a proposed total of R348 million in 2023/24, R250 million in 2024/25 and R390 million in 2025/26 is allocated to the Nelson Mandela Bay Metro to avert the water supply crisis from the ongoing drought over the medium term through the *regional bulk infrastructure grant*.
  + 1. **Discontinuation of the Municipal Emergency Housing Grant**

The *municipal emergency housing grant* ceases to exist as funds are shifted to the vote of the Department of Human Settlements. These funds formed part of the baseline to local government conditional grants in the 2022 MTBPS.

1. **Substantive changes to the Bill Clauses**

**Section 5 - Equitable division of local government share among municipalities**

* Subsection (3) is amended to allow for the amendment of LGES payment dates if the transfer of funds is stopped in terms of section 216(2) of the Constitution.

**Section 7 - Conditional allocations to provinces**

* In line with the change made in the 2022 Division of Revenue Amendment Act, clauses are added to section 7 in the Bill to allow for the pledging of provincial grants.

**Section 13 - Duties of receiving officer in respect of infrastructure conditional allocations to provinces**

* Subsection (1)(g) is amended to include the transferring officer and relevant provincial treasury on the submission of final reports on infrastructure programmes partially or fully funded from the relevant grants.

**Section 16 - Expenditure in terms of purpose and subject to conditions**

* Subsection (3) is amended to require that transfers made to other organs of state, by receiving officers, are gazetted before the transfers are made; and make it explicit that if unspent, these allocations are subject to section 21(1) – they must revert to the National Revenue Fund unless approved for a roll-over.

**Section 18 – Stopping of allocations**

* A clause is added to put deadlines for the submission of requests by transferring officers, provincial treasuries and receiving officers to stop allocations
* Subsection (2)(b) is amended to include transferring officers in the National Treasury’s notification informing provincial treasuries of its intention to stop allocations

**Section 22 – Payment requirements**

* Subsection (2) is amended to include paragraph (e) to allow for amendments to the LGES amounts determined in terms of paragraph (a) if the transfer of funds is stopped in terms of section 216(2) of the Constitution or offset in terms of section 21(4)(a)(ii)

**Section 31 – Liability for costs incurred in violation of principles of cooperative governance and intergovernmental relations**

* Amended to include a clause that requires that where an organ of state decides to institute judicial proceedings against another organ of state, it must, within 10 working days of its decision, notify the National Treasury, the relevant provincial treasury, the Department of Cooperative Governance and the Auditor-General, of the details of compliance with Chapter 4 of the Intergovernmental Relations Framework Act, 2005, including an explanation of the failure to resolve the dispute.

1. **Changes to the Schedules of the Bill**

As a consequence of the shifting of function and funds for the *municipal emergency housing grant* from municipalities and provinces to the vote of the Department of Human Settlements, the emergency housing grants are omitted from Schedule 7, Parts A and B.

1. **Comments and public hearings on the 2023 Division of Revenue Bill**

This section provides an overview of the comments on the Bill from the Financial and Fiscal Commission, Parliamentary Budget Office, South African Local Government Association, and the Department of Cooperative Governance and Traditional Affairs. Furthermore, this section will also provide a summary of public submissions received on the Bill.

* 1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) submitted that the upwards revision in the total allocation for provinces in the 2023 Budget was mainly in the provincial equitable share (PES). This was to accommodate the 2022/23 public servants wage increase costs, with a total of R31.1 billion being added for compensation of employees (COE) over the 2023 MTEF. While adjustments had been implemented in both the 2022 and 2023 MTEF, they remained marginal and in the main were for COE and infrastructure repairs as a result of flooding. The FFC further indicated that the small increase in the allocation for the *Human Settlements Development Grant*, implied a continued delay in reducing housing backlogs and improving housing and living conditions of poor households. The FFC expressed concern over the shifting of the *Provincial Emergency Housing Grant* from provinces to the national Department of Human Settlements. It was of the view that provinces were better placed to understand and implement than the national government, which is expected to play a monitoring role. The FFC was also concerned over the decrease of 7.6 percent in the allocation to the *District Health Programmes Grant*, given the expanded and important role of the Grant in supporting HIV/AIDS prevention programmes and specific interventions which include counselling and testing, prevention of mother-to-child transmission, ARV treatment and homebased care.

The FFC made the following recommendations with regard to provincial allocations:

* The Department of Health should indicate how the reduced resources for the *District Health Programmes Grant* were likely to affect service delivery and how this tighter budget would be managed, especially given the expanded scope of the district health programme.
* While supporting funding for emergency housing needs as a result of flooding, the FFC reiterated its previous recommendation that provinces and municipalities should develop and implement adaptation and mitigation strategies to address natural disasters in the long term.
* Shifting conditional grants from provincial and local government spheres to the national sphere should be the last resort, as lower spheres of governments are better positioned to understand delivery needs.

The FFC welcomed the additional allocation to local government as it would assist with alleviating some of the pressures municipalities faced. It, however, emphasised the national and provincial spheres' role in supporting municipalities in fulfilling their constitutional mandate. The FFC further welcomed efforts to keep LGES growth rates above inflation, indicating that the positive real growth rate would go a long way in offsetting the ever-increasing costs of basic services. However, the FFC pointed out that the marginal increase placed added pressure on municipalities' ability to deliver services, given the current economic situation. The FFC welcomed additions to the baselines of certain direct conditional grants over the 2023 MTEF. It, however, pointed out that during the 2023 MTEF, municipal conditional grant baselines were expected to be reduced by over R735 million, with R574 million from direct conditional grants. This was due to the discontinuation of the *Municipal Emergency Housing Grant* with the funding to be shifted to the national Department of Human Settlements. The FFC indicated that the steady decline in real growth rates of municipal conditional grants in 2023/24, with no growth in the outer years of the MTEF, would negatively impact on the outcomes of the economic recovery plan which was based on infrastructure-led growth programmes. The FFC further noted the changes made to the *Municipal Infrastructure Grant*, with the establishment of an indirect component, and the basis of identifying municipalities needing support.

The FFC made the following recommendations with regard to local government allocations:

* While noting the proposed increase in the total allocation to the LGES over the medium term, the FFC reemphasised its previous recommendation for a fundamental review of local government transfers, especially from the perspective of the vertical division of revenue. This review should also include a proper re-examination of the assumptions used in the Local Government White Paper.
* Capacity-building efforts should be comprehensively consulted on, and agreed to with. Capacity-building actions should be linked to a municipality-specific diagnosis of capacity challenges or deficits. National Treasury should consider the consolidation of local government conditional grants into an integrated financial flow.
* The roles and functions of the role players in the District Development Model as well as the funding requirements and responsibilities, should be clearly determined, to eliminate any ambiguity.
  1. **Parliamentary Budget Office**

The Parliamentary Budget Office (PBO) commenced its submission by explaining that provinces were responsible for basic education, health, roads, human settlements, social development and agriculture. Municipalities, on the other hand, provided basic services such as water, sanitation, electricity reticulation, roads and community services. For the two spheres of government to execute these mandates, national government transfer financial resources through equitable shares and conditional grants. Equitable shares are determined by formulas that take into account demographic and developmental factors. Whereas conditional grants are designed to achieve specific objectives, and provinces and municipalities must meet certain criteria to receive grants and fulfil conditions when spending them.

The PBO commented that the total main budget expenditure allocation for the 2023/24 financial year was R2.02 trillion, which also included non-interest allocations of R1.7 billion and debt-service costs of R307 billion. On the division of revenue among the three spheres of government, the PBO submitted that national government proposed to receive R854.4 billion (49.1 percent), provincial governments would be allocated (R695 billion (41.2 percent, which is made up of 82 per cent of equitable share and 18 per cent of conditional grants) and local government would receive R147.8 billion (9.7 per cent, which is made up of 59 per cent of equitable share, 32 per cent of conditional grants and 9 per cent of general fuel levy sharing with Metropolitan municipalities) in the 2023/24 financial year.

Regarding the PES in the medium term expenditure framework, the PBO stated that that the total average annual increase was 2.5 per cent. The largest average annual increase was 3.1 per cent to Limpopo. Overall, the estimated total of increases was between R10.063 billion and R11.371 billion, mainly to provide for the carry-through effect of the 2022/23 public-service wage increase. PBO highlighted that it was important to note the decrease in the total allocation in 2023/24 from the 2022/23 estimate.

Regarding conditional grants, the PBO submitted that most had increased since the revised estimates in 2022/23 financial year. PBO highlighted were the following:

* The *District Health Programme Grant* decreased by R2.157 billion;
* The *National Tertiary Services Grant* decreased by R282 million;
* The *Education infrastructure Grant increased* by R1.373 billion;
* The *Human Settlement Development Grant* increased by R688 million; and
* The *Provincial Roads Maintenance Grant* increased by R3.202 billion.

Regarding the transfers to local government, the PBO observed that in 2023/24 financial year, R164 billion was allocated as direct transfers, while a further R8.5 billion was to be spent by national departments on behalf of municipalities. PBO added that of the direct transfers, 68.3 per cent will be transferred as unconditional grants funds for municipalities to use according to the priorities determined by their councils through their budget processes. The remaining 31.7 per cent will be transferred through conditional grants. Furthermore, added the PBO, in 2023/24 government is funding free basic services to 11.2 million households at a cost of R70.9 billion.

* 1. **South African Local Government Association**

The South African Local Government Association (SALGA) noted the R14 billion allocation increase to local government. It however asserted that the structural under-funding of the local government sphere and the realisation of the aspirations contained in the White Paper on Local Government of 1998 could not be addressed by a slight increase, considering the financial pressures facing municipalities. Following a resolution at the 2022 Local Government Summit, SALGA has been working with the FFC to determine the ideal fiscal allocation to the local government sphere. Thus far, a base document has been produced, that made recommendations on the horizontal allocation of nationally raised revenue. The outstanding work included a study on the cost of running the business of a municipality; determining the ideal percentage of nationally raised revenue to be allocated to local government; and finalising a project plan to consult all stakeholders on Intergovernmental Fiscal Relations (IGFR). Preliminary findings would be presented at the Budget Forum in September or October 2023. The current equitable share model underestimated the cost of providing services and overestimated the contribution of own revenues to funding these. The current under-funding of local government and its consequent financial distress were a direct result of the fiscal assumptions made in the White Paper on Local Government of 1998, many of which had proven to be incorrect or had not been implemented as envisaged.

SALGA supported the refinement of the LGES formula in an effort to arrive at a cost-reflective basis for rendering basic municipal services. Despite this, the revenue adjustment factor applied to the community services component had not been revised. SALGA submitted that it participated in the LGES Working Group undertaking reforms to refine the LGES formula.

SALGA welcomed the proposed debt relief measures for municipalities as it related to the Eskom debt take-over and awaited the envisaged National Treasury Circular with conditions for municipalities. SALGA indicated that it expected to be consulted for comments on this Circular. It further welcomed the LGES cushioning with additional funding against shortfalls due to the approved Eskom tariff increase of 18.65 percent; which it felt the increase completely obliterated municipalities' ability to generate revenue from electricity services.

SALGA indicated that the proposed tax incentive on the installation of solar panels would encourage more migration from the grid to renewable energy and thus erode the most important revenue source for municipalities; while only benefiting the middle class, who were high energy consumers and could afford to install renewable or alternative energy equipment; and formed a significant portion of reliable ratepayers, who were major contributors to cities’ electricity revenue. Poor households would have to remain on the grid using prepaid and conventional metering, which already had above-inflation tariff increases. An increased uptake of renewable energy and changes in consumer demand for electricity would affect not only a city’s finances but also its ability to cross-subsidise low-income residential customers. To regulate this, SALGA recommended that it be consulted on the norms and standards municipal surcharges on electricity. It further requested to be consulted on the norms and standards for municipal surcharges on electricity.

Furthermore, SALGA submitted to the Committee that in July 2022, it had launched a nation-wide citizen responsibility campaign, Asisho! Let’s Say It! The campaign’s aim was to educate members of local communities about their duties and obligations towards the social and economic upliftment of their local areas by paying for municipal services rendered; and it would be extended to government and private sector debt. SALGA supported initiatives and efforts to review laws to improve governance in municipalities; as it would lead to less bureaucracy and better ways to manage money and provide services; and was further participating in all intergovernmental forums aimed at improving the performance of municipalities.

SALGA welcomed the update of the municipal borrowing policy framework as well as the approval of the Municipal Fiscal Powers and Functions Amendment Bill. According to SALGA, this would enable municipalities to charge development charges without regulatory obstacles. However, SALGA expressed disappointment that the budget made no mention of government interventions to address debts owed to municipalities by government departments. Furthermore, that these departments did not prioritise budgeting for their municipal debts. SALGA was further concerned that the horizontal budget allocations to municipalities located on the borders of the country did not take into account the fiscal and service delivery strain these municipalities were under due to uncontrolled and illegal immigration. Since the 2021 October Budget Forum, SALGA has noted with concern the national government's drive to convert municipal grants to Schedule 6 indirect grants.

SALGA welcomed the inclusion of technology and innovation as part of MIG, RBIG and WSIG; and stated that it would work collaboratively with the relevant departments to facilitate the implementation of the provisions. SALGA recommended that the 2024/25 budget consultation process should address the following:

* Government debt owed to municipalities.
* Fiscal and service delivery pressures on border municipalities.
* The reversal of the Municipal Emergency Housing Grant to local government.
* Any consolidation of conditional grants to be Schedule 5 grants.
  1. **Department of Cooperative Governance and Traditional Affairs**

The Department of Cooperative Governance and Traditional Affairs (COGTA), gave an overview of the allocations to the different spheres of government through the Bill. It submitted that the Bill does not provide special grant funding for municipalities that are in financial distress. Municipalities in financial distress were supported by government through other support mechanisms such as the Municipal Support Improvement Plans (MSIPs). The MSIPs focus more on governance and institutional issues that may be contributing to such municipalities being financially distressed.

COGTA stated that municipalities were meant to be self-sustainable as these provide trading services like portable water, sewerage, electricity, refuse removal, motor vehicle licencing. COGTA submitted that the current state of decay in municipal administration, governance and high unemployment were the contributory factors to the state of financial distress municipalities. In order to deal with the challenges identified in the State of Local Government Report, COGTA has developed a framework to guide the process of developing, implementing and monitoring the MSIPs. Municipalities in financial distress were supported by COGTA and National Treasury through the development of Financial Recovery Plans (FRPs), MSIPs and through the mobilisation of support from sector departments, provincial COGTA’s and Provincial Treasuries using the District Development Model Approach.

COGTA submitted that an Intervention Collaborative Model has been developed with National Treasury in an effort to deal with challenges facing application, implementation and monitoring of municipalities under interventions. This model covered and guided interactions between the two departments in implementing Section 139 interventions.

COGTA also gave an overview of the reconstruction and rehabilitation of damaged infrastructure through the National Disaster Management Centre (NDMC) and highlighted the below challenges and mitigating interventions.

|  |  |
| --- | --- |
| **Key Challenges Identified** | **Proposed Interventions** |
| * + Failure/ reluctance by organs of state to invoke emergency procurement arrangements therefore unable to implement response projects within 6 months as per the disaster grant frameworks, due to potential audit implications.   + Allocated funds not utilized by organs of state and being surrendered to the national fiscus.   + Lack of technical capacity within organs of state to implement intervention measures.   + Governance related matters (poor financial management, vacant critical positions, council not seating to pass allocated budgets).   + Challenges on following - monitoring of implemented projects that is exacerbated by lack of oversight and intervention by Accounting Officers within the funded organs of state.   + Failure to report on spending in term of prescribed procedures. | * + Strengthen Project Management Units to monitor and report on all funded projects through Grant Funding Programmes through technical support from the Municipal Infrastructure Support Agency (MISA), the District Development Model (DDM) and Rapid Response Teams.   + Strengthen participation of various stakeholders through activation of joint operation centres or other relevant structures for effective response and recovery.   + Organs of state to report on spending of grants in terms of DORA and section 24 of the Disaster Management Act, 57 of 2002   + Strengthen capacity within the NDMC in terms of resources and systems to enhance grant management process in support of organs of state |

* 1. **Congress of the South African Trade Unions**

The Congress of South African Trade Unions (COSATU) noted the Bill and submitted that there were some positive budgetary allocations contained within it. It was however deeply concerned that the Bill continued along the same neo-liberal trajectory of seeking to balance the books by pickpocketing nurses, teachers and other hard working public servants.

COSATU found it unacceptable that the SRDG has not been adjusted for inflation since its inception in 2020 and stated that this needed to be fixed. It stated that the SRDG needed to be retained beyond 2024 and also be increased to the food poverty line of R624. COSATU expressed concerns that National Treasury and the Department of Social Development have failed to pay attention to the administrative challenges, including underspending. The RSDG recipients needed to be paid electronically and also be placed in skills training and employment placement programmes. COSATU viewed this as important if SRDG was to be used as a foundation for the introduction of a basic income grant.

COSATU welcomed the additional funding for local government, but bemoaned the lack of decisive interventions by COGTA and SALGA in the 90 per cent of municipalities experiencing financial distress. Local government was in real trouble with many rural municipalities no longer being able to provide basic services. Furthermore, up to 20 municipalities in the Northern and Eastern Cape, North West and Free State routinely fail to pay their employees.

COSATU submitted that there was no indication as to what the proposed additional funding was for, which municipalities will receive it and how it will be used to re-capacitate local government. It was concerned that provincial governments, responsible for key expenditure departments, routinely engaged in fiscal dumping in the final quarter of the financial year.

**7.6 Amandla.mobi**

Amandla.mobi submitted that the tabling of the 2023 national budget and Bill are technical documents that will directly impact tens of millions of lives. It welcomed the increases on social grants and the effort to pull millions out of poverty was acknowledged. However, Amandla.mobi submitted that these increases were not enough as these did not address the impact of inflation and the high cost of living. Amandla.mobi expressed its disappointment at the budget tabled by the Minister of Finance, and was especially concerned that no mention was made about plans for a basic income grant. This was despite the fact that the President of the Republic of South Africa mentioned in his 2023 State of the Nation Address that work was underway to develop plans for the introduction of a basic income grant.

Amandla.mobi submitted that SRDG allocation has been reduced from R44 Billion to R35.7 Billion. This meant even fewer people will get the grant, on top of over a million people who qualify for it but are not receiving it. The point was made that over 716 000 graduates have applied for the SRDG and this was indicative of how dire the situation has become for people.

Amandla.mobi stated that the overall grant increases were not enough to keep up with the high cost of living in South Africa. It submitted that even a R90 increase on the Old Age grant was not enough because many pensioners are heading households, having to bear the brunt of their unemployed children and, in other cases, their grandchildren as well. It continued that the proposed budget provided more relief for the rich and big businesses and was as such not inclusive of the poor majority. In conclusion, Amdla.mobi submitted that the implementation of a wealth tax was important as this would mean there would be enough revenue to raise grants with amounts that could keep up with the high cost of living.

**7.7 Budget Justice Coalition**

The Budget Justice Coalition (BJC) argued that the state has failed to justify its decision to continue implementing budget cuts as the core mechanism to reduce public borrowing. To this end the BJC called for a budget process that promoted access to public services for all. It contended that the impact of budget cuts disproportionately impacted the most marginalised and poor in our society and thereby increased inequality, and there was a call by the BJC for gender responsive budgeting. The submission of the BJC centred on gender responsive budgeting, educational conditional grants, provincial equitable share, and social protection grant. The BJC made the following recommendations:

* That Human Rights Impact Assessments be made as recommended by the United Nations Committee on Economic, Social and Cultural Rights, which South Africa is a party to. These need to be undertaken whenever the government wished to propose funding cuts to socio-economic rights entitlements. The results of these assessments should be published and integrated into more meaningful public participation processes on the budget.
* A reversal of the cuts in real value to basic education, health care, social security, and other sectors to be reflected in the 2023 Medium-Term Budget Policy Statement.
* Regarding the SRDG, the BJC called for an adjustment to the means test threshold to maintain its value with the Statistics South Africa’s updated food poverty line of R663; and an inflation-linked increase to the grant value.
* Regarding the Child Support Grant, BJC called for the increase in the grant amount to be adjusted to correct for the below-inflation increase in the 2022/23 financial year and be in line with food inflation, as the grant is intended to cover the cost of food for a child.
* Increase in the allocation for the Public Employment Stimulus and be implemented as part of a broader public sector jobs strategy.
* That oversight of the implementation of the free basic services be improved to ensure that more households actually receive the benefit.
* That public participation workshop or process for the gender responsive budgeting guidelines be organised during and beyond the 2023/24 financial year, so that expertise and experience from people working on the ground can be shared with the National Treasury.
* Increased investment in capacity building to enable the provinces to spend their allocations in order to reduce the effects of underspending by provinces.

**7.8 Section 27**

Section 27 submitted that allocations to programmes that are meant to deliver critical services such as health care and basic education to the people do not reflect a sense of urgency, particularly in an economic context where an increasing number of people relying on public services. Section 27 recommended that Parliament insists that if cuts to the provincial equitable share and conditional grants are to be made, these must be based on transparent and participatory human rights impact assessments. This should demonstrate that the reductions will not increase inequality and undermine people's rights to access quality basic education and healthcare services.

Section 27 also shared National Treasury’s frustrations towards underperforming public programmes and that many of the programmes for which it requests increased funding allocations end up returning these funds. Section 27 supported National Treasury's intention and work towards resolving these issues through strengthening partnerships to build capacity, and it called on National Treasury to continue to invest in capacity building to resolve this underspending in the provinces.

Section 27 welcomed the progress made towards gender-responsive budgeting and requested that the National Treasury facilitates a public workshop on the developed gender responsive budgeting guidelines during the 2023/24 financial year. This was important so that expertise and experience from people working on the ground could be shared with National Treasury.

Regarding the Provincial Equitable Share, Section 27 welcomed the reversal in the Bill of the 0.8 per cent nominal reduction in the previous year. However, it called for allocations to the provinces to align with the Consumer Price Index (CPI), population growth and increased number of people relying on public services. Section 27 recommended that the PES increase at least in line with CPI inflation and the growing number of public service users so that its value is not eroded. On conditional grants allocations to provinces, Section 27 recommended that these grants increase at least in line with CPI inflation and the growing number of public service users so that their real value is not eroded

Section 27 gave an overview of the personnel funding, particularly for health and basic education, and submitted that there will be a contraction in the real value of the provincial equitable share in 2023/24 and over the medium term. Section 27 submitted that the inability of government and organised labour to find common ground on the public sector wage bill will likely produce the following:

* A decline in the quality and availability of basic education and health care services available to the public.
* Further increases to the burdens placed on already overstretched teachers, education support staff and health care professionals and administrators.
* Worsening employment conditions and stagnant or declining pay for those employed in public education and health care.
* Increased inequality as those households with the means to opt out of public education and/or health care will continue to do so. Households without sufficient funds to access private services will be forced to remain in the chronically under-resourced public systems.

In light of the above, Section 27 recommended that a balanced and sustainable agreement between government and public sector unions on the public sector wage bill be drafted. This will allow for a marked reduction in the large number of vacancies that exist in the basic education and public health care sectors, and the improvement of working conditions.

Section 27 gave an overview of the health sector spending and acknowledged the perennial underspending, mainly driven by poor spending on direct and indirect health infrastructure grants and delays in appointing general practitioners (GPs) in pilot NHI Districts. Section 27 was however of the view that reducing the quantum of spending will threaten the quality of health services. In this context, Section 27emphasised that the capacity of the provincial health departments to provide health care services should be strengthened. Section 27 made the following recommendations with regard to health care allocations:

* That additional funds be allocated to the *health facility revitalisation grant* to adequately equip health care facilities in provinces to mitigate the electricity crisis without having to reprioritise funds from an already shrinking budget.
* That Parliament direct the National Treasury to ensure that the mental health services component, at the very least, keeps up with the costs of inflation, in order to address the treatment gap and the increasing demands of mental health services on the healthcare system.

Section 27 also gave an overview of the allocations towards basic education and submitted that fiscal policy, including the Division of Revenue Bill was a powerful tool in redressing social ills, such as violence in schools and GBV in society. As such, it called on government to address governmental initiatives to curb this violence in schools through the budget instruments. Section 27 called for greater budget allocation and quality of spending for psychosocial assistance to survivors, investigation into matters and to capacitate educators and relevant officials on their rights and obligations pertaining to sexual violence.

**7.9 Rural Health Advocacy Project**

The Rural Health Advocacy project (RHAP) submitted that South Africa’s medium economic outlook was weak, with economic growth forecasted at a tepid rate 0.7 per cent. Given the current levels of uncertainty, complexity and ambiguity it may be imprudent to accept forecasted allocations over the medium term. Provinces as the main service delivery agents were also the largest employers. While additional funding was made available through the provincial equitable share in the outer years, these allocations were likely to be absorbed by public sector wage increases thus leaving little room for the additional capacity.

RHAP emphasised the need for prioritising health care services and submitted that health care needs will always exceed available resources. Therefore, priority setting in health was inevitable and the choices a country makes in this regard will either positively or negatively affect some people in the population it serves. The RHAP submitted that decision makers should be accountable to justify their decisions and demonstrate how decisions are aligned with the values of the country concerning health maximization, health distribution, and financial protection.

RHAP submitted that the socio-economic risk profiles of many rural communities made them vulnerable to any changes in fiscal policy. Therefore, austerity measures as embodied in spending cutbacks can have severe consequences on the already constrained health care services in rural communities. To this end, RHAP emphasised the need to protect rural communities through a) prioritising primary health care over hospicentric services as it was more inclusive and cost effective; b) appointing mid-level staff over specialists to lower the human resource costs; c) task shifting and sharing could be implemented to utilise the workforce better; d) conducting cost-benefit analyses before new technologies are purchased; e) prioritising essential life-saving technology over “nice-to-have” or supporting technology; and f) prioritising open-source software over propriety which may require the payment of license fees.

RHAP made the following recommendations:

* Centralised procurement of medicines to improve efficiency in the supply and distribution of medicines which will reduce medicine prices.
* Establish minimum budgeting thresholds for prioritised items as non-negotiables.
* Prioritise funding through ring-fencing by attaching conditions to the grants.
* Prioritise compliance with regulations where non-compliance carried the risks of financial costs much higher than the cost of compliance, for example, regulations related to occupational safety.
* Prioritise the filling of leadership posts to minimise the use of actors whom are often associated with abuse and maladministration.

**7.10 TB Accountability Consortium**

The TB Accountability Consortium (TBAC) submitted that over the medium term, the program’s budget remained stagnant with a 0.01 per cent increase. This was despite the required coordination of the implementation of the TB recovery as well as the launch of the new NTP which is expected in the coming weeks. TBAC noted the proposed reduction to the District Health Programme grant in the 2023/24 financial year. It further noted the lack of transparency in the prioritization of provincial provision of the TB Recovery Plan.

TBAC submitted that Health component made up 27 per cent of the provincial equitable share and the TB services were primarily funded through the equitable share. At provincial level, the main cost driver is the cost of employment however no consideration is given for a public sector wage increase. Transfers to provinces decline in 2023/24 before rising by an average of 2 per cent in the outer years of the 2023 MTEF. TBAC stated that the TB recovery plan necessitated a sharp increase in testing and increased enrolment into care which will require additional spending on testing and medicines. It continued that amidst uncertainty on future funding flows, it was essential that Parliament considered how existing publicly funded health care capacity was optimized in order for it to prioritise those with the greatest need.

TBAC, in conclusion, submitted that Parliament had a responsibility to ensure that the division of revenue prioritized access to primary health care and made the following recommendations:

* That a joint committee be temporarily established to review and interrogate provincial departments’ resource allocation decisions for the 2023/24 and 2024/25 financial years. This joint committee should ensure that safeguarding strategies are in place to guarantee that priority health services like TB and its recovery plan are protected.
* Continued surveillance of TB data in two separate structures will maintain low linkage to care and completion in the TB cascade, and there is a need to permit the comparison of National Institute for Communicable Diseases data with facility level data. This will ensure effective assessment of those receiving treatment

1. **Findings and Observations**

Having deliberated and considered all the submissions made by the above stakeholders on Division of Revenue Bill (B2-2023), the Standing Committee on Appropriations makes the following findings and observations:

* 1. The Committee notes and welcomes the redistributive nature of the Bill in that, even though Metropolitan municipalities account for 70.1 per cent of personal income tax revenue, these municipalities receive only 32.6 per cent of local government transfers whilst the 61 mostly rural local municipalities who account for only 5.7 per cent of personal income tax revenues receive 27.3 per cent of transfers to local government. The Committee is encouraged by this redistributive spirit of the Bill, and this will ensure that efforts are put in place for the attainment of a balanced socio economic development across the country, without leaving anyone behind.
  2. The Committee notes and welcome the MTEF average annual growth of 7.4 per cent in local government share of the nationally raised revenue, contributed largely by the higher than inflation average growth of 9.3 per cent in local government equitable share. The Committee has always held the view that in order to address the systemic challenges of poverty and inequality, local government must play a pivotal role due to its close proximity to the people, understanding their needs and the provision of the required services. These views are also shared by the FFC that also welcomed this upward allocation as it will assist with alleviating some of the pressures municipalities face.
  3. The Committee notes the submission by the FFC that welcomes the government’s efforts to keep LES growth rates above inflation through increased allocation, the FFC is of the view that the positive real growth rate of the LES will go a long way in offsetting the ever-increasing costs of basic services, a view that is shared by the Committee.
  4. The Committee notes the submission by SALGA that welcomes the 11 per cent, or R14 billion upward revision of the gross allocation to local government for the 2023/24 financial year and the upwards adjustments on the outer years of the MTEF. Furthermore, SALGA submitted that this upward trajectory in local government allocations from nationally raised revenue should be maintained in order to realise the aspirations contained in the 1998 White Paper on Local Government in respect of subsidising the provision of basic services.
  5. The Committee notes with concern the discontinuation of the conditional *Emergency Housing Grants* for provinces and municipalities and the subsequent shifting of this grant funding and its function to the National Department of Human Settlements. The Committee is firmly of the view that provinces and municipalities are better placed to respond housing emergencies due to their close proximity to targeted and affected communities and the vast knowledge of the topographic dynamics of their areas. The Committee shares this concern with the FFC, which has also submitted its concern to the Committee on the shifting of this grant. The Committee is also of the view that provinces and municipalities are better placed to understand and implement this grant than the national government which is expected to play a monitoring role. To this end, urgent extensive discussions with the National Treasury, Provinces and SALGA are necessary in order to allay the fears of the Committee and FFC about this decision.
  6. The Committee notes the submission by the FFC that while it supports funding for emergency housing needs as a result of flooding, provinces and municipalities should develop and implement adaptation and mitigation strategies to address natural disasters in the long term
  7. The Committee notes with concerns the below inflation average increase of only 2.8 per cent over the MTEF in respect of the provincial share of national raised revenue. The Committee is concerned by this as the free or low cost social services provided by provinces, including public basic education for 13.4 million learners and healthcare for 50.8 million goes toward South Africans who do not have private insurance. The Committee is of the view that if these allocations are not reviewed and at least adjusted annually for inflation, it will potentially reverse the gains made by provinces in a number of services that they provide to the population. By National Treasury’s own admission, provinces do not have significant taxation powers, and transfers through division of revenue accounted for about 97 per cent of provincial revenues in 2023/24. Therefore, this below inflation proposed increases over the MTEF adjustment is questionable as it might set up the provinces for failure in respect of fulfilling their constitutionally mandated functions.
  8. The Committee notes and welcomes the proposed R1.6 billion added to the *Early Childhood Development (ECD) Grant*, to increase the number of children accessing the early childhood development subsidy, provide pre-registration support to early childhood development centres, and pilot a nutrition support programme and a results-based service delivery model. The Committee has previously emphasised the importance of ECD and funding allocation for these important programmes is crucial for the future of the country, if children are considered as a future. ECD is therefore critical if a child is to be better prepared and productive in later years of life.
  9. The Committee notes the submission by the Budget Justice Collision that welcomes the proposed increases of 51 per cent and 24 per cent on the ECD grant for 2024/25 and 2025/26 as a step in the right direction to ensure that the 3.5 million poor children under 6 years have access to quality, subsidised programmes.
  10. The Committee notes and welcomes the proposed additional allocation of R1.5 billion over the MTEF to the *National School Nutrition Programme Grant* to ensure that the meals provided to almost 9 million learners meet the nutritional requirements. The Committee views this as an important intervention by government, particularly for poor and rural schools where some school-going children are to a larger extent dependent on these school meals for both their nutrition and survival.
  11. The Committee notes and welcomes the proposed additional allocation of R283 million in 2023/24 for repairing school infrastructure damaged by the April 2022 floods in KwaZulu-Natal and Eastern Cape provinces. The Committee would like to encourage the Department of Basic Education to closely monitor and ensure speedy repairs on the identified damaged school infrastructure to ensure that learners’ education programmes are not hampered by any sort of delays in the repairs and refurbishment of these critical school infrastructure.
  12. The Committee notes and welcomes the proposed additional allocation of R6.8 billion to the *provincial roads maintenance grant* over the MTEF for the backlog in refurbishment of provincial roads and R3.7 billion for the building of modular steel bridges (rural bridges) under the Welisizwe Rural Bridges Programme. The Committee is of the view that the provincial road network has over the year been characterised by poor investment, refurbishment and maintenance, to the detriment of economic growth and other social benefits. The Committee is encouraged by these proposed allocations, more so about the additional funding allocated towards the Welisizwe Rural Bridge Programme.
  13. The Committee notes with concern the submission by the FFC that the District Health programme which is meant for HIV/AIDS, TB, Malaria and Community Outreach has shown a decline in 2023/24 to R26.8 billion from R29.0 billion in the previous financial year, a decrease of 7.6 per cent. The FFC submitted to the Committee that it was concerned by this reduction of funding given the expanded and important role of the grant as it supports HIV/AIDS prevention programmes and specific interventions which include counselling and testing, prevention of mother-to-child transmission, ARV treatment and homebased care. The Committee is of the view that discussions with National Treasury and the Department of Health should be urgently held in order for the Committee to have a full understanding of this decision and its possible service delivery implications on the targeted population.
  14. The Committee notes the submission by the FFC which recommends the reviewing the local government transfers, especially from the perspective of the vertical division of revenue, including the re-examination of the assumptions used in the local government White Paper. The Committee supports this recommendation and is also of the view that some of the assumptions which were made in the 1998 White Paper might be less relevant in a 2023 South Africa, given the myriad of changes that economies all over the world have experienced.
  15. The Committee notes with concerns the lukewarm consideration of the budget recommendations made by the FFC to National Treasury for consideration, in line with the mandate of FFC in as far as budget recommendations are concerned. The Committee is concerned by constant recommendations which are made by the FFC on the budget but not duly considered by the National Treasury in government budgeting process. The Committee is of the view that an urgent discussion with National Treasury and the FFC is necessary to ensure that there is a balanced approach in the budgeting process. The FFC recommendations on the budget must be given the required attention and due consideration as required by law.
  16. The Committee notes the submission by SALGA which welcomes the proposed debt relief measures for municipalities in relation to the Eskom debt take-over. The Committee is in agreement with SALGA that before the publishing and possible gazetting of this Circular with conditions for municipalities, SALGA must be consulted to ensure that all the attached conditions are feasible and implementable by the affected municipalities.
  17. The Committee notes the submission by SALGA that the proposed tax incentive on the installation of solar panels will encourage more migration from the grid to renewable energy and thus erode the most important revenue source for municipalities. However, the Committee is of the view that, due to the negative socioeconomic impact of load shedding on the livelihood of South Africans, this tax incentive should be encouraged. The Committee implores SALGA to also look on the positive spinoffs of this tax incentives on the population rather than looking at it only through lens of municipal revenue generation. The Committee is of the view that the opportunity costs of load shedding (both social and economic) far outweigh that of municipal revenue generated from electricity sales.
  18. The Committee welcomes the submission by Section 27 that recommends that Parliament should insist that if cuts to the provincial equitable share and conditional grants must be made, that these must be based on transparent and participatory human rights impact assessments which will demonstrate that the reductions will not increase inequality and undermine people's rights to access quality basic education and healthcare services. The Committee implores on National Treasury that budget cuts decisions should not only be an outcome of programme expenditure performance but that service delivery impact assessments should be carried out. This will minimise the negative impact on the target population, and where necessary, relevant government interventions should be explored.
  19. The Committee notes and welcomes the National Treasury’s proposed substantive changes in the Bill clauses. The Committee is of the view that continuous reviews and changes on the Bill clauses are necessary if these changes are meant to improve public finance governance, transparency and compliance with South African public finance management laws and regulations.

1. **Recommendations**

The Standing Committee on Appropriations, having considered submissions from various stakeholders on the Division of Revenue Bill [B2-2023], recommends as follows:

**9.1** That the Minister of Finance ensures that National Treasury provides Parliament with a detailed report on the rationale for shifting and the discontinuation of the conditional *Emergency Housing Grants* for provinces and municipalities and the subsequent shifting of this grant funding and its function to the Department of Human Settlements, and possible service delivery implications.

**9.2** That the Minister of Finance ensures that National Treasury submits comprehensive reports on its due processes in the consideration of the recommendations of the FFC in government budgeting processes as required by law. The report should elaborate on the entire process, including two-way engagements processes with the FFC in instances where their recommendations are not considered and available dispute resolution mechanisms.

* 1. That the Minister of Finance ensures that National Treasury adequately consults with SALGA on any regulations or circulars that will govern the debt relief for municipalities that owe Eskom and report to Parliament on these proposed regulations and consultation with all affected stakeholders. The entire process should be transparent and be easy to implement by various municipalities with different revenue generating capabilities and challenges.
  2. That the Minister of Finance ensures that National Treasury corrects and effects the proposed substantive changes on the Bill clauses.
  3. That the Minister of Basic Education ensures that the Department of Basic Education closely monitor the speedy utilisation of the proposed additional allocation of R283 million in 2023/24 for repairing school infrastructure damaged by the April 2022 floods in KwaZulu-Natal and Eastern Cape provinces. The Department must provide quarterly expenditure and progress reports of the repairs of the targeted schools that were affected by the floods.
  4. That Minister of Health ensures that the Department of Health submits a comprehensive report to the Committee on the impact and possible service delivery implications of the decline budget allocated towards the District Health programme which is for HIV/AIDS, TB, Malaria and Community Outreach programmes. Committee wants to understand the service delivery implications of this budget reduction given the expanded and important role of the grant.

1. **Committee Recommendation on the Bill**

The Standing Committee on Appropriations, having considered the Division of Revenue Bill [B2-2023], (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.

1. **Conclusion**

The Committee would like to express its appreciation on the inputs, comments and proposals made by all the stakeholders who participated during the consultation processes of this Bill. The Committee thanks the FFC, PBO, SALGA and COGTA for continually providing valuable inputs that enhances the work of the Committee and Parliament. Most importantly, the Committee would like to express its appreciation on the consistency in which Amandla.mobi, COSATU, Section 27, Rural Health Advocacy Project and the Budget Justice Coalition always provide inputs and share valuable points for consideration with the Committee whenever invited. The Committee values all your contributions and your valuable inputs enhances the oversight role of the Committee, and subsequently that of Parliament.

Given the current socio-economic challenges that South Africa finds itself in, the Committee is faced with very limited choices within the tight fiscal environment. However, the Committee would like to assure all stakeholders that it will continue to engage with government on all the valuable suggestions made by all stakeholders who participated in the passage of the Bill. The Committee would like to encourage all stakeholders to continue to engage with the Committee on these important topical issues of public interest.

The responses by the relevant Executive Authorities, to the recommendations as set out in section 8 above, must be sent to Parliament within 60 days after the adoption of this report by the National Assembly.

Report to be considered.