**Report of the Standing Committee on Appropriations on the Second Adjustments Appropriation (2022/23 Financial Year) Bill [B4 – 2023] (National Assembly – Section 77), Dated 17 March 2023**

Having considered the Second Adjustments Appropriation Bill [B4 – 2023], referred to in terms of Section 12 of the Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009 (as amended by the Money Bills Amendments Procedure and Related Matters Amendment Act, No 13 of 2018), the Standing Committee on Appropriations reports as follows:

1. **Introduction**

Section 213(2) of the Constitution of the Republic of South Africa, provides that money may be withdrawn from the National Revenue Fund only (a) in terms of an appropriation by an Act of Parliament; or (b) as a direct charge against the National Revenue Fund. Section 30(1) of the Public Finance Management Act (PFMA), No 1 of 1999, states that the Minister of Finance may table an adjustment budget in the National Assembly as and when necessary. Section 30(2) of the PFMA further states that the adjustments budget may provide for, amongst others, money to be appropriated for expenditure already announced by the Minister during the tabling of the annual budget, as well as the the shifting of funds between and within votes.

The 2023 Second Adjustments Appropriation (2022/23 financial year) Bill (hereafter referred to as the Bill) proposes to appropriate additional funding allocations for expenditure approved in the 2022/23 financial year. The Standing Committee on Appropriations, hereinafter referred to as the Committee, is established in terms of section 4(3) of the Money Bills Amendment Procedure and Related Matters Act, 2009 (as amended), and herein referred to as the Act.

The Bill was tabled in Parliament by the Minister of Finance on 22 February 2023 during the presentation of the 2023 budget and was referred to the Committee for consideration and report to the National Assembly as prescribed in section 12 of the Act. In processing the Bill, section 4 (4) (c) of the Act also requires the Committees on Appropriations of both Houses to consult with the Financial and Fiscal Commission (FFC). In addition to consulting with the FFC, the Committee also invited the Parliamentary Budget Office to comment on the Bill.

The Act also requires the Committee on Appropriations to conduct public hearings on the Bill and for the Committee to report to the House on the comments and amendments to the Bill. In compliance with the requirements of the Act, advertisements were published on Parliaments website and social media platforms, inviting the general public and interested parties to comment on the Bill. The public hearings on the Bill were held on 14 March 2023 via the Zoom virtual meeting platform. In response, written and oral submissions were received by the Committee for consideration, and in line with the requirements of the Act from the Congress of South African Trade Unions.

1. **Background to the Bill**

The Bill gives effect to adjustments to the appropriation of money from the National Revenue Fund for expenditure approved in the 2022/22 financial year and provides for matters incidental thereto. The Appropriation Act, 2022 (Act No. 7 of 2022), provides for the appropriation of money from the National Revenue Fund to provide for the requirements of the State in respect of the 2022/23 financial year. Whereas the Adjustments Appropriation Act, 2022 (Act No. 21 of 2022), effected adjustments to the appropriation of money provided for in the Appropriation Act, 2022, and whereas further adjustments are required to authorise expenditure approved in terms of section 6 of the Appropriation Act, 2022, and section 30 of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

The Bill proposes allocation of additional funding to Vote allocation to fund the carry-through costs of the 2022 public services wage increase, the South Africa Airways SOC Limited as a settlement agreement that was reached between the SAA business rescue practitioners and the airline’s creditors providing for a gradual payment of historical debts, the South African Post Office (SAPO), the Land Agricultural Development Bank of South Africa, and additional allocation towards political party funding. Table 1 below summarises the revision to the 2022/23 non-interest expenditure since the 2022 budget.

**Table 1:** Revision to the 2022/23 non-interest expenditure since the 2022 budget

|  |  |  |
| --- | --- | --- |
| **R million** |  | **2022/23** |
| **Non-interest expenditure (2022/23 budget** |  | **1,673,450** |
| Upward expenditure adjustments |  | **77,419** |
| **2022 Medium Term Budget Policy Statement** | **54,117** |  |
| Special Appropriation | 30,014 |  |
| Other allocation in the AENE | 24,102 |  |
| **Second adjustments appropriation** | **23,302** |  |
| South African Airways | 1,000 |  |
| South African Post Office | 2,400 |  |
| 2022/23 public-service wage increase | 14,602 |  |
| Political parties fund | 300 |  |
| Land Bank section 6 provision | 5,000 |  |
| **Downward expenditure adjustments** |  | **-54,039** |
| Projected underspending | -19,427 |  |
| Other downward adjustments | -34,613 |  |
| Revised non interest expenditure (2023 budget) |  | **1,696,829** |
| Change in non-interest expenditure from the 2022 budget |  | **23,379** |

***Source:*** *Second Adjustments Appropriation (2022/23 Financial Year) Bill: National Treasury*

1. **Provisions of the Bill**

The Bill proposes additional financial support to the following Votes:

1. A proposed additional allocation of R1 billion to the Department of Public Enterprises (Vote 10) for a settlement agreement that was reached between the SAA businesses rescue practitioners and the airline’s creditors providing for a gradual payment of historical debts.
2. A proposed additional allocation of R2.4 billion to the Department of Communications and Digital Technologies (Vote 30) for the recapitalisation of the South African Post Office SOC Limited.
3. A proposed additional allocation of R5 billion to National Treasury (Vote 8) for the purchase of equity from the Land and Agricultural Development Bank of South Africa.
4. A proposed additional allocation of R300 million to the Department of Home Affairs (Vote 5) for addition support to the operation of political parties.
5. A proposed addition of R4.5 billion to various Vote allocations to provide for the carry-through costs of the 2022 public-service wage increases.
6. **Public sector wage increases**

In order to provide for the 2022 public-service wage agreement between government and organised labour, the bill proposes additional allocation of R4.5billion to Vote allocation. The total exclude the allocation to Parliament of the Republic of South Africa as the disaggregation of the vote per main division is determined in terms of the Financial Management Act of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009). Table 2 below highlights the total proposed allocation per vote to cater for the 2022 public-service wage agreement, excluding Parliament.

**Table 2:** Public-service wage increase

|  |  |  |
| --- | --- | --- |
| **Vote** | **Department (R'000)** | **2022/23** |
| **1** | The Presidency | 11,400 |
| **2** | Parliament\* | 37,068 |
| **3** | Cooperative Governance | 12,523 |
| **4** | Government Communications and Information Systems | 8,753 |
| **5** | Home Affairs | 92,274 |
| **6** | International Relations and Cooperation | 81,810 |
| **7** | National School of Government | 3,028 |
| **9** | Planning, Monitoring and Evaluation | 10,544 |
| **10** | Public Enterprises | 5,280 |
| **11** | Public Service and Administration | 9,328 |
| **12** | Public Service Commission | 7,092 |
| **13** | Public Works and Infrastructure | 15,920 |
| **14** | Statistics South Africa | 46,909 |
| **15** | Traditional Affairs | 3,112 |
| **16** | Basic Education | 16,227 |
| **17** | Higher Education and Training | 222,750 |
| **18** | Health | 24,754 |
| **19** | Social Development | 15,531 |
| **20** | Women, Youth and Persons with Disabilities | 4,460 |
| **21** | Civilian Secretariat for the Police | 3,609 |
| **22** | Correctional Services | 426,368 |
| **23** | Defence | 802,585 |
| **24** | Independent Police Investigative Directorate | 6,302 |
| **25** | Justice and Constitutional Development | 370,476 |
| **26** | Military Veterans | 3,656 |
| **27** | Office of the Chief Justice | 70,565 |
| **28** | Police | 1,891,453 |
| **29** | Agriculture, Land Reform and Rural Development | 104,548 |
| **30** | Communications and Digital Technologies | 10,595 |
| **31** | Employment and Labour | 33,587 |
| **32** | Forestry, Fisheries and Environment | 56,920 |
| **33** | Human Settlements | 11,652 |
| **34** | Mineral Resources and Energy | 29,001 |
| **35** | Science and Innovation | 11,962 |
| **36** | Small Business Development | 4,780 |
| **37** | Sports, Arts and Culture | 10,325 |
| **38** | Tourism | 10,777 |
| **39** | Trade, Industry and Competition | 34,379 |
| **40** | Transport | 15,833 |
| **Total** | | **4,501,068** |
| \*Parliament allocation is excluded from the total as the disaggregation of the vote per main division is determined in terms of the Financial Management of Parliament and Provincial Legislatures Act, 2009 | | |

***Source:*** *Second Adjustments Appropriation (2022/23 Financial Year) Bill: National Treasury*

1. **Proposed additional allocation to State-owned Entities**

In addition to the proposed additional allocation of R300 million for political party funding through the Department of Home Affairs (Vote 5), government proposes additional allocation to the South African Airways SOC Limited, The South African Post Office SOC Limited, and the Land and Agricultural Development Bank of South Africa. Table 3below highlights the summary of the Bill Schedule for selected Vote allocation and reflect the proposed additional allocation to State-owned companies.

**Table 3:** Bill Schedule



***Source:*** *Second Adjustments Appropriation (2022/23 Financial Year) Bill: National Treasury*

1. **Comments and hearings on the 2022 Second Adjustments Appropriation (2022/23 financial**

**year) Bill with identified stakeholders**

The sections below provide an overview of the submissions made by the identified stakeholders on the Bill.

* 1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) noted the allocation of R4.5 billion to national departments to assist with the carry-through costs associated with the 2022/23 public service wage increase. It however cautioned that unaffordable wage bill settlements remained a key risk to the fiscus. It welcomed the work being spearheaded by the Department of Public Service and Administration and National Treasury to devise a single remuneration framework for the public sector. With regard to the R8.4 billion in bailouts for the South African Airways (SAA); the South African Post Office (SAPO); and the Land and Agricultural Development Bank of South Africa (and Bank), the FFC cautioned that continued bailouts for under-performing state-owned entities (SOEs) created perverse incentives and were fiscally unsound. The FFC further noted the R3.8 billion of unspent funds on the Social Relief of Distress (SRD) grant within the Department of Social Development that was reportedly due to an improved means testing system. The FFC expressed concerns over the progressive erosion in the number of people accessing this grant, in light of persistent unemployment and worsening socio-economic conditions, disproportionately affecting poor households.

The FFC made the following recommendations:

* As recommended previously, government must devise systems of accountability and measures of control to prevent SOEs from indulging in moral hazard behaviour. Pre-conditions and conditions required for bailouts, including financial and operational reporting have been implemented, however, positive outcomes have been limited.
* In the spirit of greater transparency and accountability, future bills must be accompanied by more information and an explanation of the rationale for proposed adjustments.
  1. **Parliamentary Budget Office**

The Parliamentary Budget Office (PBO) commented that the Bill was necessary to address some challenges in national government and in SOEs. The revenue contained in the Bill was raised through downward expenditure adjustments totalling R54 039 million (R19.4 billion was raised from under-expenditure within government and R43.6 billion from other downward adjustments) and seeks to provide revisions to the non-interest expenditure due to the following:

* Public-Service wage bill which increased by R14.6 billion. Increases are between R3 million and R1.9 billion depending on the size of the national department.
* Due to outstanding historical debt, SAA will receive R1 billion on condition that all government guarantees to SAA will be cancelled, and that proof of funds for the strategic equity partner transaction needs are to be provided. National Treasury will review the Strategic Equity Partner (SEP) agreement to prevent future fiscal obligations.
* SAPO will receive a R2.4 billion financial injections; but with several conditions, including the placement of the entity under administration;
* The Land Bank will be allocated R5 billion (R3 billion for the blended finance programme and R2 billion to remedy its default position).
* A sum of R300 million will be allocated to Political Parties Fund.

The PBO submitted that all the financial allocations, as indicated above, will be accompanied by applicable relevant conditions.

1. **Public Submission on the Bill**

The section below provides an overview of the submission that was made in response of the advertisement that was published on Parliament’s website and social media platforms.

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

The Congress of South African Trade Unions (COSATU) submitted that considering that the South African economy had been stagnant for over a decade and experienced many challenges and crises, the 2023 national budget and the Bill were not bold enough. COSATU hoped that the Bill would protect workers from inflation, rebuild the state, decisively tackle corruption, provide relief to the unemployed and put measures to stimulate the economy.  It however acknowledged that there were positive interventions in the 2023 national budget and the Bill.

COSATU welcomed the additional allocations made to departments and State-owned entities. It made the following comments and proposals with regard certain identified proposed allocations in the Bill:

|  |  |
| --- | --- |
| Parliament | * COSATU welcomed the R37 million allocation for Parliament. * It however expressed concerns about the delays in rebuilding Parliament which is a national key point and heritage site as well as the seat of the national legislature. * COSATU emphasised that rebuilding project at Parliament should be prioritised. |
| Cooperative Governance and Traditional Affairs (COGTA) | * COSATU noted the R12 million allocated to COGTA however it was concerned at the lack of greater interventions or sense of urgency by COGTA given the rapid deterioration in local government where 90 per cent of municipalities were in financial distress and 20 routinely failed to pay staff salaries. |
| Department of Home Affairs | * The allocation of R92 million to invest in Home Affairs civic services was welcomed as more investment is needed to turn this key public service around and end the interminable queues members of the public were subjected to. * It welcomed the allocation of R300 million to support political parties under the Political Party Funding. However, it was not enough and needed to be increased substantially to R1 billion if South Africa is to wean political parties off an unhealthy dependency on private donors with dubious motivations. * Political parties as part of the constitutional dispensation will be required to undertake expensive election campaigns over the next year. COSATU stated that R300 million will not be sufficient for political parties to do so, and at the same time is taken advantage of by corrupt tender-preneurs seeking to buy favour. |
| Land Bank | * COSATU welcomed the R5 billion allocation to the Land Bank and submitted that this needed to be accompanied by the necessary management interventions to ensure that the entity is well run and can play the role the economy. |
| SAA | * COSATU welcomed the allocation of R1 billion to settle outstanding SAA debts and submitted that the beginning of SAA’s turnaround in a very difficult sector was welcomed. * As SAA rebuilds, it needed to prioritise the employment of its former employees, where possible. |
| Presidential Employment Initiative (PEI) | * COSATU submitted that the PEI has done well to help hundreds of thousands of young people enter the labour market, gain experience, learn skills and earn a salary. * It expressed disappointment that in spite of an unemployment rate of well over 40 per cent and a youth unemployment in the range of 60 per cent, that the allocation to the PEI was not increased to accommodate at least one million participants. |
| SRD grant | * COSATU was pleased that the government has agreed to the demand for the extension of the SRDG that has provided relief to about 8 million people. * It emphasized that this grant needed to be retained beyond 2024 and increased to the food poverty line of R624, and at the very least it needed to be adjusted for the significant inflationary erosion it has experience since its introduction in 2020. * COSATU was concerned that National Treasury failed to pay attention to the SRDG’s administrative challenges including the underspending. This was important if this programme was to be used as a foundation for a Basic Income Grant. * It recommended that the SRDG recipients needed to be paid their funds electronically and no longer made to stand in endless queues. These beneficiaries also needed to be included, where possible, in skills training and employment placement programmes. * COSATU submitted that the R3.7 billion reduction for the SRD Grant and R81 million for SASSA administrative support was deeply disturbing and misguided. |
| SAPO | * COSATU welcomed the R2.4 billion for SAPO however this needed to be accompanied by a turnaround plan. This plan must not be based upon retrenching 4000 employees and slashing the wages of the remaining 9000 workers. * COSATU continued that this plan needed to include support to re-pivot SAPO to expand the services it offers, catch up with a rapidly evolving sector and becoming a service site for government services in rural and disadvantaged communities. This also needed to include a fully-fledged Postbank. * SAPO and the Postbank Amendment Bills need to be expedited by government and Parliament. |
| Commission for Conciliation, Mediation and Arbitration (CCMA) | * COSATU noted with disappointed that a flood of workers lost their jobs and wages, were denied their deducted contributions, were abused and also forced to work in unhealthy conditions. In spite of this, no additional appropriations were allocated to the CCMA which has battled to cope with drastic cuts over the MTEF. |
| Department of Mineral Resources and Energy (DMRE) | * COSATU welcomed the additional allocation of R129 million to boost the DMRE’s capacity and submitted that it hoped that this will assist with the mining rights backlogs. This can unlock billions of investments and create thousands of badly needed jobs. * It was of the view that it was equally critical that some of the appropriation be allocated to boosting the Mine Health Safety Inspectorate’s capacity and reduce the weekly lives lost to mining accidents. * COSATU emphasized that DMRE needed to revive its RDP Housing Solar Panel programme which is intended to cover 150 000 households annually. |

1. **Committee Findings and Observations**

Having considered all the submissions made by the above stakeholders on the Second Adjustments Appropriation Bill [B4 – 2023], the Standing Committee on Appropriations made the following findings and observations:

* 1. The Committee notes and welcomes the Bill’s proposed additional allocation of R4.5 billion to Vote allocation for the carry-through costs associated with the 2022/23 public-service wage increases.
  2. The Committee notes and welcomes the proposed additional allocation of R5 billion for a purchase of equity/recapitalisation of the Land and Agricultural Development Bank of South Africa (Land Bank). The Committee is of the view that the Land Bank has an important developmental mandate that requires periodic government equity injections if this mandate is to be realised without severely compromising its balance sheet. Furthermore, the Committee welcomes National Treasury’s proposed conditions for this allocation which are in the interest transparent financial management and good governance on scarce public resources.
  3. The Committee notes and welcomes the proposed additional allocation of R2.4 billion for the recapitalisation of the South African Post Office (SAPO), with National Treasury’s proposed conditions. However, the Committee is concerned about the consistent government bailouts towards SAPO, without any tangible evidence of progress made to turn the entity into a sustainable path. The Committee holds the firm view that the turnaround plan for this entity is long overdue and actions are urgently needed from the accounting authority and management of SAPO to deliver a credible turnaround plan for this entity.
  4. The Committee notes and welcomes the proposed additional allocation of R1 billion to the South African Airways (SAA) to fund the settlement agreement that was reached between the SAA business rescue practitioners and the airline’s creditors for a gradual payment of historical debts. Importantly, the Committee notes and welcomes the commitments from National Treasury that this will be last payment that the tax payers will have to pay to the SAA, and on a condition that all of SAA government guaranteed debts will be cancelled. Also, National Treasury will require the Strategic Equity Partner (SEP) to provide proof of funds for the SEP transaction, while National Treasury will also review of the SEP agreement to ensure it does not give rise to future fiscal obligations.
  5. The Committee notes with concerns on the reported R3.7 billion under expenditure on the Social Relief of Distressed (SRD) grant. Given the high level of unemployment in South Africa. The Committee is of the view that National Treasury, the Department of Social Development and the South African Social Security Agency are not doing enough to ensure that all those who qualify for this grant, do access this grant. The Committee is of the view that there is a need for an urgent review of the qualification criteria and the registration processes in order to ensure that all qualifying individual are not unfairly excluded.
  6. The Committee notes with concerns on the submission by COSATU that, while it welcomed the extension of the SRD grant to March 2024, it expressed concerns that the Department of Social Development and National Treasury have not paid enough attention on the administrative challenges of the grant. The Committee has continuously raised its concerns on the administration of this grant, as is evidenced by consistent underspending, yet many South Africans are faced with persistent high levels of unemployment, poverty and worsening socio-economic conditions. These concerns have also been raised by the FFC who submitted that this consistent under expenditure on the SRD grant was, to a larger extent, caused by more stringent grant eligibility criteria being applied, and the FFC submitted its concerns on the progressive erosion in the number of people that are accessing this grant.
  7. The Committee notes the submission by COSATU, who while welcoming the proposed additional allocation of R37 million towards the Vote of Parliament, it was deeply concerned with the delays in rebuilding Parliament, a national key point, heritage site and the legislative seat. COSATU like the Committee, is of the view that rebuilding of Parliament should be prioritised.
  8. The Committee notes the submission by COSATU that while it supported the proposed additional allocation of R300 million to the Vote of Home Affairs for the Political Party Fund, this allocation was not enough and should be increased substantially to R1 billion to wean political parties off an unhealthy dependency on private donors with dubious motivations.
  9. The Committee notes the submission by COSATU that while it supported the proposed additional allocation of R2.4 billion for SAPO, the entity needed a turnaround plan that was not based upon retrenching 4000 employees and reducing wages by 40 per cent of the remaining 9000 workers. Furthermore, COSATU submitted that government needed to re-pivot SAPO in order to expand the services it offers, catch-up with the evolving sector and become the government services site for rural and disadvantaged communities. Furthermore, the Committee notes the submission by COSATU that the SA Post Office and Postbank Amendment Bills needed to be expedited.
  10. The Committee notes and welcomes the submission by the FFC that government must devise systems of accountability and measures of control to mitigate SOEs from indulging in moral hazard behaviour. The Committee notes the concern by the FFC that pre-conditions and conditions required for bailouts, including financial and operational reporting have been implemented before, with limited outcomes. The Committee implores on National Treasury, as the custodian of the public purse, to ensure that all pre-agreed conditions are all met before the transfer of funds to government entities.
  11. The Committee notes and welcomes the submission by the FFC that, in the spirit of greater transparency and accountability, future bills must be accompanied by more information/explanation of the rationale for proposed adjustments.

1. **Recommendations**

The Standing Committee on Appropriations, having considered the briefings and comments by invited stakeholders on the Second Adjustments Appropriation (2022/23 financial year) Bill [B4-2023], recommends as follows:

* 1. That the Minister of Finance ensures that the proposed additional allocation of R1 billion to the South African Airways (SAA) is the last one from government to settle the agreement that was reached between the SAA business rescue practitioners and the airline’s creditors for a gradual payment of historical debts. Furthermore, the Minister of Finance must ensure that National Treasury reviews the Strategic Equity Partner agreement to ensure it does not give rise to future fiscal obligations. Furthermore, while the Committee recognises there may be confidentiality in the SEP agreement during negotiations, once finalised, the details must be shared and:

1. The Minister of Finance and National Treasury must be satisfied that the deal will have a win-win outcome;
2. The value and price paid by the SEP must be market related and based on scientific evaluation which the Minister of Finance and National treasury should agree with;
3. The details of the deal must be shared with Parliament, and presented to the Portfolio Committee on Public Enterprises;
4. The employees of SAA should be shareholders, and the Department of Public Enterprises and National Treasury should assist with the funding of the employees’ portion. For this, the Public Investment Corporation should be considered;
5. Government and the SAA employees should hold at least 51 per cent of the equity.
   1. That the Minister of Finance ensures that National Treasury effectively enforces the pre-set conditions and all other conditions imposed on the proposed allocation to the South African Post Office, SAA, and the Land and Agricultural Development Bank of South Africa.
   2. That the Minister of Finance and the Minister of Social Development ensures that National Treasury and the Department of Social Development urgently review the eligibility criteria on the Social Relief of Distressed grant in order to stop the progressive erosion in the number of people that are accessing this grant as a result of the tightening of the eligibility criteria. This is more urgent given the persistent high levels of unemployment and worsening socioeconomic conditions, which disproportionately affect poor households.
   3. That the Minister of Communications and Digital Technologies ensures that the accounting authority of the South African Post Office urgently finalise the business-turnaround plan of the entity in order to stop its reliant on government bailouts but return the entity on self-sustainable path, while also ensuring that SAPO meets all the conditions imposed on this allocation.
   4. That the Minister of Finance ensure that National Treasury, in future, provide more explanatory information on the rationales and justifications of these adjustments appropriation bills in the spirit of greater transparency and accountability on the utilisation of public resources.
6. **Committee Recommendation on the Bill**

The Standing Committee on Appropriations, having considered the Second Adjustments Appropriation (2022/23 financial year) Bill [B4-2023] (National Assembly – Section 77); referred to it and classified by the Joint Tagging Mechanism; recommends that the Bill be adopted, without amendments.

1. **Conclusion**

The responses to the recommendations as set out in section 7 above by the relevant Executive Authorities must be sent to Parliament as well as the Committee within 60 days of the adoption of this report by the National Assembly.

Report to be considered.