**Report of the Select Committee on Appropriations on the *Division of Revenue Bill* [B2 - 2023], Dated 03 May 2022**

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B2 – 2023] (National Assembly-Section 76(1)), referred to it and classified by the JTM as a Section 76(1) Bill, reports as follows:

1. **Introduction and background**

Section 214(1) of the Constitution of the Republic of South Africa requires that every year a Division of Revenue Act should determine the equitable division of nationally raised revenue between national, provincial and local government. In line with Section 7(1)(3) of the Money Bills and Related Matters Act No. 9 of 2009, as amended by Act No. 13 of 2018 (the Money Bills Act); Section 27(1) of the Public Finance Management Act No. 1 of 1999, as amended by Act 29 of 1999 (the PFMA), and Section 10(1) of the Intergovernmental Fiscal Relations Act No. 97 of 1997, the Minister of Finance, Mr E Godongwana, tabled the 2023 annual national Budget, including the *Division of Revenue Bill* [B2 – 2023] (the Bill) in the National Assembly on 22 February 2023.

The purpose of the Bill is to provide for –

* 1. the share of each sphere of government of the revenue raised nationally for the relevant financial year;
	2. each province’s share of the provincial share of that revenue; and any other allocations to the provinces, local government or municipalities from the national government’s share of that revenue, and any conditions on which those allocations are or must be made.
1. **Legislative framework guiding processing, consultations and public participation**

According to the above-mentioned legislative frameworks, the Bill must be processed following the procedure established by Section 76(1) of the Constitution. On 23 March 2023, the Bill was passed by the National Assembly and referred to the National Council of Provinces (NCOP) and the Committee for consideration and report as required by Section 9(2) of the Money Bills Act. As per the practise, the Committee invited all provincial portfolio committees on Finance and/or Treasury to be part of the briefing by National Treasury, on 08 March 2023. The same approach was followed on 15 March 2023, when the Committee, in compliance with Section 15 of the Money Bills Act, was briefed by the Parliamentary Budget Office (PBO) and, in compliance with Section 214(2) of the Constitution and Section 10(4) of the Intergovernmental Fiscal Relations Act, consulted with the Financial and Fiscal Commission (FFC). Furthermore, during a virtual meeting on 22 March 2023, in compliance with Section 214(2) of the Constitution, the Committee consulted with the South African Local Government Association (SALGA).

As per Section 72 (1)(2) of the Constitution and 9(5)(b) of the Money Bills Act, the Committee facilitated public participation while processing the Bill. To this end, advertisements calling for public submissions were published on the Parliamentary website and in print media in all 11 official languages. Despite these efforts the Committee received only one written submission from the Congress of South African Trade Unions (COSATU), who also made an oral presentation during the meeting of 22 March 2023.

The NCOP, through the Committee Members, briefed provinces on the Bill between 17 and 21 April 2023. The Committee received and considered the provincial negotiating mandates on 26 April 2023 and final mandates on 03 May 2023. This served as an indication that provinces had fully participated in the processing of the Bill, as envisaged in Section 214(2) of the Constitution.

1. **Overview of the Bill**

The 2023 Budget remains steadfast in maintaining expenditure within the bounds of the medium-term fiscal framework, which is aimed at reducing the budget deficit and stabilising debt. Consequently, any growth in allocations to the three government spheres for the 2023/24 financial year is incremental, in line with the fiscal policy priority of minimising expenditure growth. The Budget prioritises additional allocations to address immediate spending pressures; setting aside a portion of higher-than-expected revenue to narrow the budget deficit; and implementing reforms to support economic growth. The Budget makes provision for additional funding to the provincial equitable share (PES) over the 2023 Medium Term Expenditure Framework (MTEF) period to provide for the carry-through costs of the 2022/23 public service wage agreement; and to the local government equitable share (LGES) to increase the coverage of the provision of free basic services.

The 2023 Budget amounts to R2.03 trillion, which is a nominal increase of R10.4 billion or 0.5 percent from the adjusted allocation of R2.02 trillion in 2022/23. Over the 2023 MTEF period, the budget is projected to increase to R2.3 trillion by 2025/26 at an average rate of 5.5 percent. as can be seen in Table 1 below.

**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)***

As can be further seen in Table 1, for 2023/24, the national government receives R1.37 trillion, which is a decrease of R5.5 billion or 0.4 percent from the 2022/23 adjusted allocation of R1.38 trillion. The provincial government sphere receives R567.5 billion and the local sphere, R96.5 billion. Proportionally, the national share of the total nationally raised revenue, equals 67.4 percent, followed by provinces with a share of 27.9 percent, and local government with a share of 4.7 percent. However, when excluding the contingency reserve and debt service costs the national government actually receives 49.1 percent of nationally raised revenue; the actual provincial share increases to 41.2 percent and the local government share to 9.1 percent.

1. **Provincial allocations**

Table 2 below shows that total transfers to provinces in 2023/24 amount to R605.0 billion, of which R567.5 billion is the equitable share and R127.5 billion is conditional grants. Included in the conditional grant funding is an unallocated amount of R146 million. Table 2 also shows the forward estimated allocations which are R587.5 billion in 2024/25 and R614.2 billion in 2025/26.

**Table 2: Provincial equitable share and conditional grant allocations**

|  |  |  |
| --- | --- | --- |
| **Provinces** | **Column A** | **Column B** |
| **Equitable share****2023/24** | **Conditional Grants****2024/25** | **Forward Estimates** |
| **2024/25** | **2025/26** |
| Eastern CapeFree StateGautengKwaZulu-NatalLimpopoMpumalangaNorthern CapeNorth WestWestern CapeUnallocated | **R’000**73 291 56931 379 647120 752 474115 947 67165 349 43246 674 21415 150 29140 096 28540 096 285 | **R’000**14 637 0009 280 00027 437 00026 320 00011 329 000 9 734 0005 095 0009 093 00014 474 000146 000 000 | **R’000**76 021 54032 369 234125 437 722118 858 26867 973 72648 436 62515 717 51041 764 58160 920 492*
 | **R’000**79 620 09033 734 911131 095 406123 812 22171 502 22950 751 83516 463 45543 842 66563 448 030*
 |
| **Total** | **567 527 713** | **127 545 000** | **587 499 698** | **614 270 842** |

* 1. **Proposed changes to provincial equitable share allocations**

**4.1.1 Responding to existing spending pressures**

* A proposed total of R20 billion is added to help provincial health departments to cover the shortfall in the compensation budget: R5.7 billion in 2023/24; R6.7 billion in 2024/25; and R7.6 billion in 2025/26.
* A proposed total of R23.5 billion is added to 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 of the implementation of the 2022/23 public service 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 to fund arrears in the compensation of *izinduna* in KwaZulu-Natal.

**4.1.2 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**

**4.2.1 Additions to baselines**

* R152 million is added to the Comprehensive Agriculture Support Programme (CASP) Grant baseline over the next three years through the Budget Facility for Infrastructure (BFI) for agri-hubs in KwaZulu-Natal.
* R1.6 billion is added to the Early Childhood Development (ECD) Grant over the MTEF to increase the number of children accessing the ECD subsidy, provide pre-registration support to ECD centres, and pilot a nutrition support programme and a results-based service delivery model.
* R1.8 billion is added to the Education Infrastructure Grant, of which R1.5 billion is over the next three years through the BFI for the Gauteng Schools Project; and R283 million is added in 2023/24 for repairing school infrastructure damaged by the April 2022 floods in KwaZulu-Natal and the Eastern Cape.
* R 1.5 billion is added to the National School Nutrition Programme Grant over the next three years to ensure that the meals provided to almost 9 million learners meet the nutritional requirements.
* R10.8 billion is added to the Provincial Roads Maintenance Grant over the next three years, of which R6.8 billion is to address the refurbishment backlog of provincial roads; R3.7 billion is to build rural bridges under the Welisizwe Rural Bridges Programme through the BFI; and R307 million is for the carry-through costs of the repair of provincial roads in the Eastern Cape and KwaZulu-Natal, damaged during the April 2022 floods.
* R1 billion is added to the indirect National Health Insurance Grant baseline in the latter two years of the 2023 MTEF, that is R432 million in 2024/25 and R569 million in 2025/26. The additional funding has been brought forward by the rescheduling of the Health Facility Revitalisation Grant component within the Grant that is funded by the BFI.

**4.2.2 Reduction to baseline**

A reduction of R372 million is made to the indirect National Health Insurance Grant baseline in 2023/24. However, when taking into account the above-mentioned R1 billion addition, the net effect is an addition of R629 million over the MTEF.

**4.2.3 Discontinuation of Grant**

The Provincial Emergency Housing Grant is discontinued and the funding of R1.1 billion is shifted to the Department of Human Settlements, reportedly to allow the Department to respond quickly in the event of an emergency housing need.

1. **Local government allocations**

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 percent 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 (LGES), 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 percent 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 percent 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 percent 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.

**5.1 Changes to local government equitable share**

The LGES for 2023/24 amounts to R96.5 billion, which is R9.2 billion more than the R87.3 billion allocated in 2022/23. The LGES also receives an additional R8.1 billion over the medium term, aimed at increasing the coverage of the provision of free basic services for indigent households. The LGES is projected to grow at an average nominal rate of 6.4 percent over the 2023 MTEF to R109.4 billion by 2025/26.

**5.2 Changes to local government grants**

**5.2.1 Additions to baselines**

* R2.2 billion is added to the Urban Settlements Development Grant over the next three years through the BFI, to fund the implementation of projects in the eThekwini Metropolitan Municipality and the City of Johannesburg. eThekwini is allocated R88 million in 2023/24 and R118 million in 2024/25 for the implementation of Phase 1 of the Avoca Node Programme, involving upgrading roads and storm water infrastructure; and Johannesburg is allocated R385 million in 2023/24, R654 million in 2024/25 and R963 million in 2025/26 for the implementation of the Lufhereng Mixed Use Development Programme, specifically to build municipal connection links for bulk electrical, water, sanitation, roads and storm water infrastructure that will serve 30 000 housing units.
* R461 million is added to the Public Transport Network Grant over the next three years through the BFI, to align funding with the revised implementation plan and cash flow projections for the City of Cape Town’s MyCiTi Public Transport Network Project, of which R105 million is allocated in 2023/24, R40 million in 2024/25 and R316 million in 2025/26.
* R3.5 million is added to the direct Regional Bulk Infrastructure Grant baseline over the next three years, through the BFI; with R1.2 billion being allocated to Sol Plaatje Local Municipality to refurbish and renew old water supply infrastructure; R1.4 billion going to Drakenstein Local Municipality to upgrade sanitation infrastructure; and R988 million being allocated to Nelson Mandela Bay Metropolitan Municipality to avert the water supply crisis from the ongoing drought over the short term, including fixing water leaks, upgrading water treatment works, borehole exploration and development, and upgrading a bulk water pipeline.

**5.2.2 Reductions to baselines**

* A reduction of R21 million is made to the Public Transport Network Grant baseline over the two outer years of the 2023 MTEF; and will be reprioritised to fund the roll-out of the Single Integrated Ticketing System. When the previously mentioned addition of R461 million is taken into account, the net effect is an addition of R440 million for the 2023 MTEF.
* A reduction of R136 million is made to the direct Regional Bulk Infrastructure Grant baseline in 2023/24, to align funding with the revised implementation plan and cash flow projections for the George Local Municipality’s Potable Water and Remedial Works Project, funded through the BFI. Taking into account the previously mentioned addition of R3.5 billion, the net effect is an addition of R3.4 billion for the 2023 MTEF.

**5.2.3 Discontinuation of Grant**

The Municipal Emergency Housing Grant is discontinued and the funding of R574 million is shifted to the Department of Human Settlements, reportedly to allow the Department to respond quickly in the event of an emergency housing need.

1. **Substantive changes to Bill Clauses**

The following substantive changes to Clauses are proposed:

* Subsection (3) of Section 5: Equitable division of local government share among municipalities 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.
* In line with the change made in the 2022 Division of Revenue Amendment Act, Clauses are added to Section 7: Conditional allocations to provinces to allow for the pledging of provincial grants.
* Subsection (1)(g) of Section 13: Duties of receiving officer in respect of infrastructure conditional allocations to provinces is amended to include the transferring officer and relevant provincial treasury in the submission of final reports on infrastructure programmes partially or fully funded from the relevant grants.
* Subsection (3) of Section 16: Expenditure in terms of purpose and subject to conditions is amended to require that transfers made to other organs of state by receiving officers are gazetted before the transfers are made; and to make it explicit that if unspent, these allocations are subject to section 21(1) and must revert to the National Revenue Fund, unless approved for a roll-over.
* A clause is added to Section 18: Stopping of allocations to put deadlines in place for the submission of requests by transferring officers, provincial treasuries and receiving officers to stop allocations; and subsection (2)(b) is amended to include transferring officers in the National Treasury’s notification informing provincial treasuries of its intention to stop allocations.
* Subsection (2) of Section 22: Payment requirements 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 is amended to include a Clause requiring 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 Schedules**

As a consequence of the shifting of the function and funds for the Municipal and Provincial Emergency Housing Grants from municipalities and provinces to the Vote of the Department of Human Settlements, the grants are omitted from Schedule 7, Parts A and B.

1. **Submissions by stakeholders**

**8.1 South African Local Government Association (SALGA)**

While noting the increase of R14 billion in the allocation to local government, the South African Local Government Association (SALGA) indicated 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 had been working with the Financial and Fiscal Commission (FFC) to determine the ideal fiscal allocation to the local government sphere. Thus far, a base document had 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 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 they 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 completely obliterated municipalities' ability to generate revenue from electricity services.

SALGA indicated that the proposed tax incentive for 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 made up a significant portion of reliable ratepayers, who are 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 for municipal surcharges on electricity.

Furthermore, SALGA submitted that it had launched a nation-wide citizen responsibility campaign, Asisho! Let’s Say It! The campaign aims 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. This would be extended to government and the private sector. SALGA supported initiatives and efforts to review laws to improve governance in municipalities, as it would lead to better financial management and provision of services; and was further participating in all intergovernmental forums aimed at improving the performance of municipalities.

SALGA welcomed the updating 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, as 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. SALGA also 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 the Municipal Infrastructure Grant, the Regional Bulk Infrastructure Grant and the Water Services Infrastructure Grant; 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.

**8.2 Financial and Fiscal Commission (FFC)**

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 service 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 the need 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 government 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 were faced with. However, it 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 cost of delivering 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; but pointed out that during the 2023 MTEF, municipal conditional grant baselines were expected to be reduced by over R735 million, of which R574 million would come from direct grants. This was due to the discontinuation of the Municipal Emergency Housing Grant and the funding being 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 re-emphasised 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 of 1998.
* Capacity-building efforts should be comprehensively consulted on with, and agreed to by, municipalities. 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 its funding requirements and responsibilities, should be clearly determined, to eliminate any ambiguity.

**8.3 Parliamentary Budget Office (PBO)**

The Parliamentary Budget Office (PBO) indicated that, for the 2023/24 financial year, 82 percent of the R695 billion allocated to provincial government was in the form of the provincial equitable share (PES) and 18 percent in conditional grants; while the local government allocation of R147.8 billion was made up of 59 percent equitable share, 32 percent in conditional grants and 9 percent in general fuel levy sharing with metropolitan municipalities.

The PBO stated that the total average annual increase in the PES over the MTEF was 2.5 percent. The largest average annual increase was 3.1 percent to Limpopo. Overall, the estimated total of increases was between R10 billion and R11.4 billion, mainly to provide for the carry-through effect of the 2022/23 public service wage increase. The PBO highlighted that it was important to note the decrease in the total allocation in 2023/24 from the 2022/23 estimate.

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

* The District Health Programme Grant decreased by R2.2 billion.
* The National Tertiary Services Grant decreased by R282 million.
* The Education Infrastructure Grant increased by R1.4 billion.
* The Human Settlements Development Grant increased by R688 million.
* The Provincial Roads Maintenance Grant increased by R3.2 billion.

Regarding the transfers to local government, the PBO observed that in the 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 percent would 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 percent would be transferred through conditional grants. Furthermore, government was funding free basic services to 11.2 million households at a cost of R70.9 billion in 2023/24.

**8.4 Congress of South African Trade Unions (COSATU)**

While the Congress of South African Trade Unions (COSATU) noted the positive budgetary allocations contained in the Bill, it was deeply concerned that the Bill continued along the path of seeking to balance the books by stealing from nurses, teachers and other hard working public servants. COSATU was further concerned that provincial governments responsible for key expenditure departments, routinely engaged in fiscal dumping in the final quarter of the financial year.

COSATU found it unacceptable that the Social Relief of Distress (SRD) Grant had not been adjusted for inflation since its inception in 2020; stating that the Grant needed to be retained beyond 2024 and be increased to the food poverty line of R624. COSATU found it concerning that National Treasury and the Department of Social Development had failed to address the administrative challenges of this Grant that had led to under-spending. It recommended that grant recipients be paid electronically and also be placed in skills training and employment placement programmes; and that the Grant be the foundation for the introduction of a basic income grant.

While welcoming the additional funding for local government, COSATU bemoaned the lack of decisive intervention by the Department of Cooperative Governance and SALGA in the 90 percent 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 failed to pay their employees. In addition, there was no indication as to what the proposed additional funding was for, which municipalities would receive it and how it would be used to re-capacitate local government.

1. **Provincial mandates**

The Committee met on 26 April and 03 May 2023, respectively, to consider negotiating and final mandates from provinces. National Treasury’s written responses to issues raised in negotiating mandates were sent to provinces on 28 April 2023.

**9.1. Negotiating mandates**

9.1.1. Eastern Cape supported the Bill and made comments and recommendations.

9.1.2. Free State supported the Bill and made comments.

9.1.3. Gauteng supported the Bill and made recommendations.

9.1.4. KwaZulu-Natal supported the Bill.

9.1.5. Limpopo supported the Bill and made recommendations.

9.1.6. Mpumalanga supported the Bill.

9.1.7. Northern Cape supported the Bill, subject to the consideration of proposed amendments.

9.1.8. North West supported the Bill and made recommendations.

9.1.9. Western Cape did not support the Bill and provided reasons.

**9.2. Final mandates**

9.2.1. Eastern Cape supported the Bill.

9.2.2. Free State supported the Bill.

9.2.3. Gauteng supported the Bill.

9.2.4. KwaZulu-Natal supported the Bill.

9.2.5. Limpopo did not submit a final mandate.

9.2.6. Mpumalanga supported the Bill.

9.2.7. Northern Cape supported the Bill.

9.2.8. North West did not submit a final mandate.

9.2.9. Western Cape did not support the Bill.

1. **Findings and Observations**

Having deliberated and considered all the submissions made by the above stakeholders on the *Division of Revenue Bill* [B2 - 2023], the Select Committee on Appropriations made the following findings and observations:

10.1 The Committee welcomed the Bill, which proposes spending to the amount of R2.03 trillion, with a nominal increase of R10.4 billion or 0.5 percent from the adjusted allocation of R2.02 trillion in 2022/23. Moreover, the Committee noted that the budget is projected to increase to R2.3 trillion by 2025/26 at an average rate of 5.5 percent.

10.2 The Committee noted that the Bill proposes a total transfer of R605 billion to provinces in 2023/24, of which R567.5 billion is the equitable share and R127.5 billion, conditional grants. Moreover, the Committee noted that the conditional grant funding includes an unallocated amount of R146 million; and that forward estimated provincial allocations are R587.5 billion in 2024/25 and R614.2 billion in 2025/26 respectively.

10.3 The Committee welcomed the fact that the Bill made provision for additional funding to the provincial equitable share (PES) over the 2023 Medium Term Expenditure Framework (MTEF) period to provide for the carry-through costs of the 2022/23 public service wage agreement; and to the local government equitable share (LGES) to increase the coverage of the provision of free basic services.

10.4 The Committee remained concerned about the National Treasury’s inability to include additional resources to assist local government to address the negative impact of load shedding on municipal infrastructure, maintenance and provision of basic services; including dealing with instances of theft during electricity blackouts.

10.5 The Committee was concerned about the fact that the compensation of izinduna in KwaZulu-Natal, amounting to R631 million which was added to the PES, had been in arrears for ten years, since the Presidential Proclamation in 2013; and the fact that KwaZulu-Natal had been the only province who did not implement this timeously and only started paying salaries from 15 December 2016.

10.6 While welcoming the fact that government has taken lessons from the KwaZulu-Natal and Eastern Cape floods, which occurred in April 2021, and has put in place interventions to ensure that there are mechanisms to promptly respond to such disasters and that temporary housing for victims can reportedly be procured quicker and more cost effectively; the Committee noted the concern expressed by various stakeholders over the shifting of the Provincial and Municipal Emergency Housing Grants to the national Department of Human Settlements.

10.7 The Committee was concerned about the fact that there was no additional funding earmarked to assist some provincial health departments to address medico-legal claims, which are seemingly absorbing large amounts of health budgets in various provinces, resulting in opportunity cost for other medical treatments and negatively impacting on patients.

10.8 Whilst the Committee welcomed the R3.7 billion added to the Provincial Roads Maintenance Grant for the building of modular steel bridges in rural areas, it remained concerned about the fact that there had been delays in certain provinces submitting project plans in order to benefit from this funding; and further noted that a portion of this funding remained unallocated.

10.9 The Committee expressed concern that the Budget, and specifically the division of revenue, did not seem to reflect what was contained in the Economic Recovery and Reconstruction Plan (ERRP); the National Development Plan (NDP); and the Medium Term Strategic Framework (MTSF), and specific reference was made to the President’s announcement of an infrastructure- led economic recovery.

10.10 The Committee was concerned about the lack of urgency in allocating additional resources in the 2023 Budget to deal decisively with the Gauteng e-toll challenges as it had been resolved that the Province would pay 30 percent of the debt from its own revenues while the national government would assist with 70 percent.

10.11 The Committee noted the fact that there were government programmes in place targeting provinces, to see how connectivity could be rolled out in schools across the country, particularly in rural areas. It also noted that the implementation of ICT and broadband plans was a function of the Department of Communications and Digital Technologies, who had the mandate and the funding to accelerate this process.

10.12 The Committee noted the fact that the National Treasury, in addition to issuing a set of regulations and circulars for municipalities, had developed guidelines as well as conducted extensive training for municipalities, and welcomed the fact that through the Financial Management Improvement Programme, National Treasury had placed advisers in various municipalities to improve municipal finances.

10.13 The Committee noted the real challenge of many municipalities living beyond their means and experiencing budgeting and cash flow challenges; and welcomed the attempts by SALGA, together with relevant government departments, to arrest the situation, which had resulted in the decline of unfunded budgets from 112 to 106 currently.

10.14 While the Committee was concerned that the cost of fuel was not included when calculating the cost of providing basic services in municipalities, it noted that National Treasury was working with national sector departments annually to get such information. However, it also noted that more work needed be done to refine this and that an LGES task team was looking at how the actual cost of providing basic services could be determined going forward.

10.15 The Committee was concerned about the R461 million added over the MTEF to the Public Transport Network (PTN) Grant for the City of Cape Town’s MyCiti public transport network project, given the project’s reported under-expenditure for the past years; and also about other cities who had reportedly under-spent on this Grant.

10.16 The Committee remained concerned about the lack of urgency to address the huge amount of monies owed to municipalities by government departments, households and businesses. The Committee agreed with SALGA, which was of the view that such government departments and business people in particular, should be setting a good example in assisting municipalities to address the culture of non-payment to improve revenue collection.

10.17 The Committee was concerned about the impact and role of the Budget Forum in ensuring that issues affecting local government are addressed and the fact that National Treasury had consulted the national Department of Human Settlements without the involvement of SALGA with regards to shifting parts of the Municipal Infrastructure Grant (MIG) to an indirect grant. The Committee believed that this was not in keeping with the spirit of intergovernmental relations.

10.18 The Committee expressed serious concern over the reported 90 percent of municipalities currently in financial distress and in particular the 27 who are failing to pay salaries and transfer deductions, as cited by COSATU’s submission, and believed that decisive action needed to be taken to arrest the current situation.

1. **Recommendations**

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

11.1 The Minister of Finance should gazette the allocations in the *Division of Revenue Bill* [B2-2023], which amounts to R2.03 trillion of nationally raised revenue, with a nominal increase of R10.4 billion or 0.5 percent from the adjusted allocation of R2.02 trillion in 2022/23. When gazetting, National Treasury should amend the necessary health conditional grant frameworks in terms of Section 16, to allow funds to be used to address the measles outbreak in a number of provinces. The National Treasury, together with provincial treasuries, should ensure that all provinces develop proper systems to manage the expenditure of their provincial allocation for 2023/24 according to approved plans and grant frameworks.

11.2 The National Treasury, together with the Department of Cooperative Governance and the South African Local Government Association (SALGA), should quantify the impact of load shedding on municipalities with a view to make additional resources available during the adjustments budget for municipalities to ensure that interruptions of basic services during the electricity blackouts are minimised and criminal elements are addressed. Parliament should continue to monitor progress in the next budget cycle.

11.3 The National Treasury, together with the Department of Traditional Affairs, the KwaZulu-Natal Department of Cooperative Governance and the Provincial Treasury, should work out a process to ensure that the long overdue compensation of izinduna is paid out immediately, especially given the fact that the Presidential Proclamation was issued ten years ago. Whilst the Committee recognises the impact of budget cuts, it is of the view that for izinduna not to be compensated as agreed for the past 10 years is highly unacceptable.

11.4 The National Treasury, together with the Department of Health, provincial health departments and provincial treasuries, should work out mechanisms to address the issue of medico-legal claims, which are absorbing some of the provincial health departments’ budgets at the expense of other important medical treatments budgeted for.

11.5 The National Treasury, together with the Department of Health, should expedite the process of finalising discussions around the funding of a plan to address maintenance and all health infrastructure backlogs as recently identified by the Department across all provinces. The Committee is of the view that maintenance of health infrastructure and facilities has been a challenge for government and this should be urgently addressed. Parliament should continue to monitor progress.

11.6 The Department of Basic Education, together with provincial education departments, should develop a clear plan and monitoring mechanisms to ensure that pit latrines are eradicated in all schools across the country. The Committee recognises the fact that the School Infrastructure Backlogs Grant has been merged with the Education Infrastructure Grant, however implores the education sector to work together to find an urgent solution with specific timeframes to address this problem.

11.7 Whilst the Committee welcomes the finalisation of the function shift of Early Childhood Development (ECD) from the Department Social Development to the Department of Basic Education, it is of the view that the R1.6 billion added to the ECD Grant should also assist to improve remuneration packages for caregivers as part of improving their working conditions.

11.8 The National Treasury and the Department of Transport, together with provincial treasuries, should ensure that mechanisms are put in place to assist provincial departments of transport to fast-track their project plans to apply for funding through the Provincial Roads Maintenance Grant for the building of modular steel bridges in rural areas, particularly in areas which have been badly affected by floods and where school children still travel long distances without scholar transport.

11.9 The National Treasury, together with Cabinet and the Gauteng Province, should ensure that decisive action is taken to implement the resolution on e-tolls, where the Province would pay 30 percent of the debt from its own revenues while the national government would assist with 70 percent. The Committee believes that this matter is long overdue and needs to be addressed expeditiously by all affected parties.

11.10 The National Treasury, together with the Department of Communications and Digital Technologies, should ensure that public service institutions located in rural and township areas are prioritised in the roll-out of broadband to accelerate implementation of connectivity programmes for schools and other similar institutions where poor communities across the country would benefit.

11.11 There is a need to accelerate the pace at which the development of the coastal line is progressing in the Eastern Cape in order to address the impact of the triple challenges and the development of the oceans economy to benefit the local people. The Committee is of the view that this should form part of the district development model (DDM), if government is to make the necessary impact on the ground.

11.12 The National Treasury should continue to issue regulations, circulars and guidelines to assist municipalities as well as to conduct training sessions for municipal officials through the Financial Management Improvement Programme, in order to improve financial management and compliance in local government in line with the Auditor-General’s recommendations. Parliament should continue to monitor progress in the next budget cycle.

11.13 The National Treasury, together with the Department of Cooperative Governance, the South African Local Government Association (SALGA) and the local government equitable share (LGES) task team, should expedite the process of mapping out the modalities to ensure that the cost of providing basic services in municipalities is accurately reflected in municipal budgets. Parliament should continue to monitor progress in the next budget cycle.

11.14 While welcoming the decision by government to streamline the process to promptly respond to disasters and floods based on the KwaZulu-Natal experience, the Committee is of the view that the National Treasury needs to ensure that proper consultation is conducted with all stakeholders, including the South African Local Government Association (SALGA), when such changes affect other spheres of government. The Committee believes that the Budget Forum is also an important structure that needs to dedicate enough time to discuss issues affecting local government.

11.15 The National Treasury, together with the Department of Transport, provincial treasuries and cities earmarked for the Public Transport Network Grant, should ensure that mechanisms are developed for municipalities to improve expenditure as well as comply fully with the Grant Framework. Parliament should continue to monitor progress in the next budget cycle.

11.16 The National Treasury, together with the Department of Cooperative Governance, provincial cooperative governance departments and the South African Local Government Association (SALGA), should continue to develop the necessary interventions to assist the 90 percent of municipalities in financial distress; and in particular the 27 that, according to the Congress of South African Trade Unions (COSATU), are not able to pay salaries for workers and transfer deductions. Parliament should continue to monitor progress in this regard.

11.17 The Committee believes that a proper review of local government transfers is needed, especially of the vertical division of revenue, taking into account the increasing number of dysfunctional and financially distressed municipalities across the country, the factors of geography and rurality and the nature of local development; to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. This should include re-examining the assumptions in the Local Government White Paper of 1998, testing their current relevancy. The Committee supports the proposed increased allocations to rural municipalities to deal with historic infrastructure backlogs; and believes that provinces with such backlogs need more investment in rural communities to fight the harsh realities of the triple challenges, causing an influx into the big cities.

11.18 The Committee reiterates its previous recommendation that any shifting or restructuring of conditional grants from direct to indirect grants, requires a clear case-by-case analysis instead of using a blanket approach, as well as proper consultations with local government, with capacity to implement at the centre. A big portion of the increased grant allocations to local government is in the form of indirect grants, meaning that municipalities will not have control over the funds, and this may result in a function shift without due processes. National Treasury should consider the South African Local Government Association’s (SALGA’s) input on this, as well as the study conducted by the Financial and Fiscal Commission (FFC) on this matter, to enhance the process.

1. **Committee decision**

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B2 – 2023] (National Assembly-Section 76(1)) referred to it and classified by the Joint Tagging Mechanism as a Section 76 Bill, reports that it has agreed to the Bill without any proposed amendments.

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

Report to be considered.