Report of the Standing Committee on Appropriations on the 2023 Medium Term Budget Policy Statement, Dated 5 December 2023

Having heard and considered submissions and comments from identified stakeholders on the 2023 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

1. Introduction

The Minister of Finance tabled the 2023 Medium Term Budget Policy Statement (MTBPS) on 1 November. The MTBPS was tabled in terms of section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act) as amended by Act No. 13 of 2018 (the Act). The MTPBS is a government policy document that communicates to Parliament and to the country the economic context in which next year's national budget will be presented, along with government fiscal objectives and spending priorities over the medium term (three-year expenditure period). As required by section 4 (4) (b and c) of the Act, after the tabling of the MTPBS by the Minister of Finance, the Division of Revenue Amendment Bill, Adjustments Appropriation Bill and the Eskom Debt Relief Amendment Bill were referred to the Committee for considerations and report to the National Assembly (NA). Amongst its responsibilities, as per section 6 (8) of the Act, the Committee is required to consider and report on the following:

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

In an effort to deepen democracy, promote good governance, enhance public participation and involvement, the Committee invited the Financial and Fiscal Commission and Parliamentary Budget Office for submissions and comments on the tabled 2023 MTPBS. In addition to the invited stakeholders, the Committee published an advertisement in national and local newspapers from 2 to 4 November 2023 inviting the public to make submissions and comments on the 2023 MTPBS. The Committee held public hearings with interested stakeholders on the Zoom virtual meeting platform on 1 December 2023. Submissions were received from the following stakeholders in response to the advertisement:

- Congress of South African Trade Unions;
- Budget Justice Coalition;
- Property Point; and
- Equal Education.

2. Economic overview and context

South Africa's economic growth outlook remains weak. Since the 2023 Budget, the South African economic growth outlook has weakened in line with changes in the world economy. The cumulative effects of power cuts, poor rail transport performance, high inflation, rising borrowing costs and a weaker global environment are forecast to limit economic growth over the medium term. Low economic growth constrains government's ability to raise the revenue needed to sustainably fund the provision of essential services in line with government policy priorities. In recent years, revenue collection benefited from a pattern of high prices for South Africa's commodity exports. In the current year, commodity prices have fallen faster than expected and value-added tax (VAT) have risen, resulting in revenue collections projected to be R56.8 billion below 2023 Budget estimates.

After the tabling of the 2023 MTBPS, Statistics South Africa (STATSSA) released employment data for the third quarter of 2023 on 14 November 2023. The Quarterly Labour Force Surveys (QLFS) published by STATSSA painted a slightly favourable picture in as far as employment data is concerned. The results of the QLFS indicate that the number of employed persons increased by 399 000 to 16.7 million in the third quarter of 2023 compared to 16.3 million in the second quarter of 2023. For the first time, this increase in the number of employed persons to 16.7 million surpassed the pre-Covid-19 levels of 16.4 million recorded in the second quarter of 2020. According to STATSA, this increase in employment numbers in the third quarter of 2023 is the 8th consecutive increase and second-largest increase since the fourth quarter of 2021, only behind the 648 000-increase recorded in the second quarter of 2022. The number of unemployed persons decreased by 72 000 to 7.8 million during the same quarter. Additionally, the number of people who were not economically active for reasons other than discouragement decreased by 160 000 to 13.1 million, while the discouraged work-seekers decreased by 26 000 in the third quarter of 2023 compared to the second quarter of 2023. This resulted in a net decrease of 186 000 in the not economically active population.

These changes in employment and unemployment numbers, resulted in the official unemployment rate decreasing by 0.7 of a percentage point from 32.6 per cent in the second quarter of 2023 to 31.9 per cent in the third quarter of 2023. The unemployment rate according to the expanded definition decreased by 0.9 of a percentage point to 41.2 per cent in the third quarter of 2023 compared to the second quarter of 2023. STATSA highlighted that the South African youth remain vulnerable in the labour market even though there was a slight decline in the youth unemployment rate by 1.9 percentage points from 45.3 per cent in the second quarter of 2023 to 43.4 per cent in the third quarter of 2023.

On the economic front, National Treasury projects that the South African economy will grow by 0.8 per cent in 2023, compared to the 0.9 per cent projected in the 2023 Budget Review ***(see table 1 below)***. Growth is projected to average 1.4 per cent from 2024 to 2026. Relative to the 2023 Budget, the weaker economic projection is attributed to lower household consumption expenditure due to higher inflation and interest rates and lower net exports. While power cuts are expected to continue for the remained of the year, National Treasury is of the view that faster, determined implementation of energy and logistics reforms remains critical to accelerating economic growth.

The International Monetary Fund (IMF), in its October 2023 World Economic Outlook report, highlighted that global recovery from the Covid-19 pandemic and Russia's invasion of Ukraine remains slow and uneven. Economic activity still falls short of pre-pandemic rates, especially in emerging market and developing economies, and there are widening divergences among regions. Several reasons are holding back the recovery, reflecting long-term consequences of Covid 19 pandemic, the Russia/ Ukraine conflict, Israel/Palestine conflict and many other political and economic shocks. According to the IMF, other factors are more cyclical in nature, including the effects of monetary policy tightening necessary to reduce inflation, withdrawal of fiscal support amid high debt, and extreme weather events. The IMF projects global growth Global growth to slow from 3.5 percent in 2022 to 3 per cent in 2023 and 2.9 per cent in 2024.

Table 1: Economic growth in selected countries

Region/country Percentage	**2021**	**2022**	**2023**	**2024**	**2025**
	Actual		**Forecast**		
World	**6.3**	**3.5**	**3.0**	**2.9**	**3.2**
Advanced economies	**5.6**	**2.6**	**1.5**	**1.4**	**1.8**
United States	5.9	2.1	2.1	1.5	1.8
Euro area	5.6	3.3	0.7	1.2	1.8
United Kingdom	7.6	4.1	0.5	0.6	2.0
Japan	2.2	1.0	2.0	1.0	0.7
Emerging and developing countries	**6.9**	**4.1**	**4.0**	**4.0**	**4.1**
China	8.5	3.0	5.0	4.2	4.1
India	9.1	7.2	6.3	6.3	6.3
Brazil	5.0	2.9	3.1	1.5	1.9
Russia	5.6	-2.1	2.2	1.1	1.0
Sub-Saharan Africa	**4.7**	**4.0**	**3.3**	**4.0**	**4.1**
Nigeria	3.6	3.3	2.9	3.1	3.1
South Africa[1]	4.7	1.9	0.8	1.0	1.6
World trade volumes	**10.9**	**5.1**	**0.9**	**3.5**	**3.7**

Sources: *National Treasury 2023 MTBPS and IMF October 2023 World Economic Outlook*

It was against this background that the Committee decided to invite and have engagements with identified stakeholders on the 2023 Medium Term Budget Policy Statement.

3. Medium term fiscal strategy

The 2023 MTBPS emphasises the continued government commitments maintaining a balanced fiscal stance that will promote economic growth and support the most vulnerable members of the society, while stabilising the public finances and reducing fiscal and economic risks. Government will also support higher levels of private sector investment and employment. In the context of limited resources, government recognises that this requires prioritisation. Over the next three years, the fiscal framework supports strong control of the public service wage bill, protecting crucial frontline services and implementing efficiency measures. Government's commitment to restoring the health of public finances means that that the debt-to-GDP ratio is still forecast to stabilise in 2025/26, although at a higher level than projected in the 2023 Budget.

Key elements of the of the medium-term fiscal strategy include the following:

- Realising a primary budget surplus in the current year. The surplus will growth over the medium term, narrowing the budget deficit and allowing debt to stabilise by 2025/26.
- Stabilising debt to enable government to arrest the trend of rising debt-service costs. Debt-service costs will peak as a proportion of revenue in 2026/27.
- Targeting spending revisions to protect critical frontline services. Baseline budgets for basic education, health and the police are protected to grow in nominal annual average terms, although below consumer price index (CPI) inflation, over the 2024 medium-term expenditure framework (MTEF).
- Implementing a reconfiguration of government functions in line with the President's commitment made during the 2023 State of the Nation Address.
- Keeping the composition of spending broadly in line with existing policy. Over the medium term, the wage bill will be below CPI inflation on average, while capital payments and transfers will grow by a nominal annual average of 8.4 per cent. Consolidated spending on the wage bill, goods and services, and current transfers and subsidies grows by an annual average of 3 per cent over the medium term. Government is implementing measures to improve the financing and execution of infrastructure projects.
- Introducing moderate revenue increases to support fiscal consolidation, while limiting the negative effects on the economy.
- Develop new fiscal anchors to ensure sustainable public finances, while work on these anchors is underway, an update will be provided in the 2024 budget.

4.Revisions to expenditure priorities

Government's fiscal consolidation policy is implemented through a combination of reductions and protection of key functions. Compared with the 2023 Budget, main budget non-interest spending is lowered by a net R37.3 billion in 2024/25 and R47.7 billion in 2025/26 financial years respectively. Reductions of R21.7 billion are implemented for the 2023/24 financial year. These are offset by the net increase in budgets for compensation of employees and other items, leading to a net reduction in non-interest spending of R3.7 billion.

Labour intensive departments have been allocated additional funding amounting to R23.6 billion in 2023/24 to help implement the 2023 public-service wage agreement, while other department will reprioritise funds to implement the agreement. Net total adjustments included in the 2023 Adjustments Appropriation Bill amounts to R10.3 billion. These includes reductions due to significant unforeseen and unforeseeable events totalling R21.7 billion. The largest adjustments are to local government conditional grants, health care programmes and infrastructure and social grants. Additional allocations are also proposed to the Department of Cooperative Governance for the reconstruction and rehabilitation of damaged infrastructure due to flooding in four provinces and to replenish the *disaster response grant*. Other adjustments include:

- R578.4 million for roll overs.
- R2 billion for self-financing from the revenue generating activities of departments to enable them to continue these activities.
- R1 billion, as announced in the in the 2023 Budget Speech, for the South African Revenue Service to improve revenue raising capabilities.

Total unspent funds amount to R2 billion, mainly from the unallocated local government equitable share funds and R502 million allocated for the recapitalisation of the Land Bank.

The details on in-year spending adjustments for national departments are set out in the *2023 Adjusted Estimates of National Expenditure*, while changes to conditional grants allocations are included in the *2023 Division of Revenue Amendment Bill*.

5. Spending priorities by function group

Consolidated government spending is projected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing at an annual average of 4.6 per cent. The economic development function accounts for the largest share of this growth. Debt service costs grow at the fastest rate, averaging 8.7 per cent per year (***see table 2 below***). Spending on payments for capital assets is the fastest growing item by economic classification, mainly due to buildings and other capital assets, which grow by an average of 13.9 per cent over the three-year period.

Table 2: Consolidated expenditure by function[1]

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Average annual growth 2023/24 – 2026/27**
R billion	**Outcome**	**Revised**	**Medium-term estimates**			
Learning and culture	**441.5**	**464.9**	**474.2**	**492.1**	**515.4**	**3.5%**
Basic education	300.4	319.7	322.8	335.4	350.8	3.1%
Post-school education and training	129.9	133.3	140.2	145.4	152.8	4.7%
Arts, culture, sport and recreation	11.2	11.9	11.2	11.4	11.7	-0.6%
Health	**256.4**	**264.5**	**268.4**	**277.6**	**290.0**	**3.1%**
Peace and security	**227.7**	**234.9**	**234.9**	**246.0**	**256.6**	**3.0%**
Defence and state security	54.2	53.5	51.6	53.6	56.0	1.5%
Police services	112.5	117.0	121.4	127.7	133.6	4.5%
Law courts and prisons	51.6	52.0	52.2	54.4	57.0	3.0%
Home affairs	9.5	12.4	9.8	10.4	10.1	-6.5%
Community development	**232.2**	**251.9**	**265.6**	**278.4**	**287.5**	**4.5%**
Economic development	**214.9**	**239.6**	**254.7**	**281.7**	**287.4**	**6.2%**
Industrialisation and exports	39.4	41.4	40.4	40.9	42.5	0.9%
Agriculture and rural development	27.4	27.7	27.0	28.2	29.2	1.8%
Job creation and labour affairs	23.0	23.0	24.3	25.3	26.5	4.8%
Economic regulation and infrastructure	107.6	128.1	144.9	169.7	170.7	10.1%

Innovation, science and technology	17.4	19.5	18.0	17.6	18.5	-1.6%
General public services	**72.1**	**77.6**	**72.9**	**75.3**	**78.3**	**0.3%**
Executive and legislative organs	14.9	17.5	15.8	16.2	16.5	-1.9%
Public administration and fiscal affairs	48.7	51.5	48.5	50.2	52.4	0.6%
External affairs	8.6	8.6	8.6	8.9	9.4	2.9%
Social development	**345.1**	**369.7**	**387.5**	**385.1**	**398.8**	**2.6%**
Social protection	263.5	283.7	298.2	316.6	331.1	5.3%
Social security funds	81.6	86.0	89.3	68.5	67.8	-7.6%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Allocated by function	**1,836.8**	**1,907.1**	**1,961.7**	**2,040.2**	**2,118.2**	**3.6%**
Debt-service costs	308.5	354.5	385.9	425.5	455.9	8.7%
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2,145.2**	**2,262.0**	**2,352.5**	**2,473.3**	**2,588.6**	**4.6%**

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

Source: *National Treasury (2023) Medium Term Budget Policy Statement*

The 2023 MTBPS categorises consolidated government expenditure priorities by function groups, namely:

- **Learning and culture:** the learning and culture is made up of the basic and higher education sectors, as well as sports, arts and culture. Although additional funding has been provided to implement the 2023 public-service wage bill, provincial education departments are constrained in hiring additional teachers. This could lead to higher class sizes and higher learner-teacher ratios, potentially resulting in weaker educational outcomes. To mitigate this, the sector will improve the approach in allocating teachers to schools, ensure that learner and teacher support materials are used cost-effectively, manage infrastructure projects more tightly and focus on plans to catch up on lost teaching time.
  Institutions in the post-school education and training sector, including the National Student Financial Scheme will need to bring their student enrolment and bursary allocations in line with their budgets. Planned infrastructure projects will be brought in line with institution's ability to spend.

- **Health:** the health sector is aiming to maintain service delivery amid budget constraints. While additional funding is provided to cover the wage increases, baseline reductions are being implemented as part of fiscal consolidation. To minimise the negative effects, the sector will need to improve efficiency in areas such as overtime payments, medical supplies and security services, and to delay infrastructure projects. The South African Law Reform Commission is finalising a report on legal reform to manage the medico-legal claims, which constitute a significant financial risk.

To address funding fragmentation for oncology services, allocations will be shifted from the *national health insurance grant* to the *national tertiary services grant*. A single grant is also proposed to consolidate the existing personnel and non-personnel services components of the *national health insurance indirect grant*. Funding is also redirected towards the Office of Health Standard Compliance to strengthen the Health Ombud.

- **Social development:** the social grants baseline includes inflation-linked increases in 2024/25 and 2025/26. The Covid-19 social relief of distress grant will be extended for another year until March 2025 while government considers social security policy reforms and a funding model. Provincial budget allocations will not increase in line with inflation, leading to a funding gap for core services and transfers to non-profit organisations. The sector needs to reprioritise and realign resources to avoid adverse impact on service delivery.

- **Community development:** this function allocates funds for services to low-income households including for housing, water and sanitation, public transport, electrification and solid waste removal. Over the medium term, transfers to municipalities and public entities accounts for the largest share for the largest share of spending in this function. Urgent intervention is required in the urban water business in metropolitan municipalities, with turnaround plans to be implemented in 2024, including the provision of technical assistance and financing through the *urban settlement development grant*.
- **Economic development:** over the medium-term expenditure framework (MTEF), government will spend an annual average of R274.6 billion to enable inclusive economic growth and job creation. Over 7 per cent of this amount provides for transfers and subsidies to departmental agencies, public corporations and private enterprises.

The Department of Agriculture, Land reform and Rural Development is focusing on monitoring and controlling pest and disease outbreaks, particularly highly pathogenic avian influenza and foot-and-mouth disease, which have disrupted the local chicken and beef supply and exports. The Department is working with farmers to ensure a constant supply of these products. The Department of Forestry, Fisheries and Environment will finalise the waste tyre management plan and strengthen the economic instruments supporting the producer responsibility regulations.

Over the medium term, government will merge the Small Enterprise Finance Agency, Small Enterprise Development Agency and the Co-operative Banks Development Agency to improve cohesion and support to small businesses. The Department of Trade, Industry and Competition will reprioritise funds to support the implementation of electric vehicle roadmap. Work is underway to merge the Trans-Caledon Tunnel Authority and the Water Trading Entity under the new National Water Resource Infrastructure Agency. This will help allocate risks more efficiently and ensure transparency in long term water financing.

To address deteriorating conditions of roads, the South African National Roads Agency Limited and provincial roads authorities will prioritise preventative maintenance on high traffic roads.

- **Peace and security:** this function aims to combat crime and maintain territorial integrity. Over the MTEF period, the focus in on improving efficiency and reprioritising funds towards key programmes. The South African Police Services will contain costs and streamline operations as headcounts decline due to natural attrition. It will foster partnership with communities and implement reforms to optimise resource allocation, training and technology.

The Department of Justice and Constitutional Development will reallocate funds over the MTEF period to capacitate the Office of the Legal Services Ombud. Funds will also be shifted from the Department of Agriculture, Land Reform and Rural Development to the Legal Aid South Africa to improve its capacity to provide legal representation in land rights matters. To strengthen its independence, the Judicial Inspectorate for Correctional Services will become a government component in 2024/25. Resources currently in the baseline of the Department of Correctional Services will be transferred with the inspectorate.

Government will continue to fill critical posts in the Border Management Agency and verify assets transferred from the department to the agency. To reduce employee compensation pressure, the Department of Defence will implement human resource reforms and review commuted overtime and allowance policies. Additional funding will be allocated to the Department to provide day to day maintenance and emergency repairs.

- **General public services:** this function contributes to building a state that can play a developmental and transformative role. In 2023/24, it accounts for 3.4 per cent of consolidated spending. Budget reductions will be absorbed through cost-containment measures and realigning goods and services budgets. The Department of Public Works and Infrastructure has identified underspending amounting to R306.1 million in programmes. Recommendations to address underspending include reviewing corporate service spending, implementing a shared service model and reducing operational leases, consultants and reporting requirements for Statistics South Africa, the National Treasury and the Department of Public Enterprises.

6. Division of Revenue

In terms of functions, provinces are responsible for basic education, healthcare services, road infrastructure, housing, social development and agriculture, while municipalities provide basic services such as water, sanitation, electricity reticulations, roads and community services. Provincial and Local governments face pressures from rising costs of basic and social services over the medium term as government continues its fiscal consolidation drive, amidst weak economic growth which negatively affects their respective sources of funding. This is compounded by the lower than anticipated tax revenue collected by national government as a result of subdued economic activities. According to the National Treasury, these pressures imply the need for greater spending efficiency and strong financial management. Over the next three years, government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces and 9.9 per cent to local government (*see table 3 below*).

Table 3: Division of revenue framework

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
		Outcome		Revised	Medium-term estimates		
Division of available funds							
National departments	**790.5**	**822.8**	**855.9**	**826.3**	**840.9**	**846.4**	**884.2**
of which:							
Provincial indirect grants	*2.9*	*3.8*	*3.9*	*4.0*	*4.0*	*4.3*	*4.4*
Local indirect grants	*4.1*	*5.7*	*7.2*	*8.3*	*8.0*	*8.3*	*8.7*
Provinces	**628.8**	**660.8**	**694.1**	**706.4**	**720.5**	**752.4**	**784.6**
Equitable share	520.7	544.8	570.9	585.1	589.5	616.4	644.3
Conditional grants	108.1	116.0	123.3	121.3	131.0	136.1	140.3
Local government	**137.1**	**135.6**	**150.7**	**160.6**	**169.2**	**177.3**	**182.9**
Equitable share	83.1	76.2	83.9	95.2	101.2	106.1	110.7
General fuel levy sharing with metropolitan municipalities	14.0	14.6	15.3	15.4	14.5	15.2	15.9
Conditional grants	40.0	44.8	51.4	50.0	53.5	56.0	56.4
Provisional allocations not assigned to votes[1]	–	–	–	–	2.3	38.0	47.1
Projected underspending	–	–	–	-3.3	–	–	–
Non-interest allocations	**1,556.4**	**1,619.2**	**1,700.7**	**1,690.1**	**1,732.8**	**1,814.1**	**1,898.8**
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
Contingency reserve	–	–	–	0.4	5.0	7.6	14.5
Main budget expenditure	**1,789.0**	**1,887.3**	**2,009.2**	**2,044.9**	**2,123.7**	**2,247.2**	**2,369.2**
Percentage shares							
National departments	50.8%	50.8%	50.3%	48.8%	48.6%	47.7%	47.8%

Provinces	40.4%	40.8%	40.8%	41.7%	41.6%	42.4%	42.4%
Local government	8.8%	8.4%	8.9%	9.5%	9.8%	10.0%	9.9%

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

***Source**: National Treasury (2023) Medium Term Budget Policy Statement*

The Eskom debt relief arrangement outlined in the 2023 Budget noted that a large proportion of outstanding municipal debt was owed to Eskom. National government subsequently invited municipalities to apply for the debt relief for arrears debt to Eskom up to 31 March 2023. The debt will be written off over a period of three years, in equal annual trenches, provided municipalities comply with set conditions. These included enforcing strict credit controls and collecting revenues to pay for bulk expenses like water and electricity. Municipalities that fail to meet the conditions will need to repay the remainder of their arrears debt to Eskom, including interest and penalties.

By October 2023, 67 applications had been submitted, totalling R56.8 billion or 97 per cent of total municipal debt owed to Eskom at the end of March 2023. Twenty-eight applications have been approved, while the remainder are being assessed and verified with provincial treasuries. Municipalities that receive this debt relief are expected to sustain the improvement in their financial condition.

7. Fiscal Risks

In engaging with government's proposed spending over the MTEF, the Committee notes the following medium- and long-term risks to public finances and outlook as reported in the 2023 fiscal risk statement. The primary risks to the fiscal outlook over the next decade are lower potential economic growth, difficulty in executing government's borrowing strategy, and spending pressures – particularly in subnational government and state-owned companies. The fiscal risk statement also considers the sustainability of government's social commitments. Key identified risks include:

- **Macroeconomic risks:** these risks include slowdown in economic growth which may compromise government's ability to achieve its fiscal goal. Additional deviations from spending plans will raise the sovereign risk premium and make fiscal stabilisation harder to achieve.
- **Debt management risks:** Government debt levels are affected by the budget balance and changes in macroeconomic variables such as interest rates, inflation and exchange rates. Between 2007/8 and 2022/23, government's debt stock increased grew from R577 billion to R4.77 trillion. Government's fiscal consolidation efforts focuses on reducing the persistent gap between revenue and expenditure, which will improve the budget balance. High debt levels increase the risks associated with macroeconomic variable (interest rates, inflation and exchange rates) affect the debt and debt-service costs.
- **Subnational government:** these risks include accruals in provinces and the contingent liabilities associated with the medico-legal and monies owed to Eskom, the Department of Water and Sanitation and the water boards by municipalities. However, the agreement to write-off some of the debt owed by municipalities to Eskom is expected to alleviate some of risks associated with outstanding debt.
- **Contingent and accrued liabilities:** these risks include government guarantees to SOEs, and the poor financial position of state-owned entities.

8. Submissions on the 2023 MTBPS

This section provides an overview and summary of all the submissions from identified and interested stakeholders on the 2023 MTBPS.

8.1 Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) gave an overview of the macroeconomic environment and stated that economic growth continued to be low, there were elevated inflation risks and interest rates as well as long-standing structural challenges. The FFC submitted that the fiscal situation was weaker than the 2023 national budget due to rising public sector wages, growing debt service costs, and the extension of the SRD grant. Despite attempts to cut spending, fiscal sustainability has not been restored. The FFC submitted that reductions in front-line services have also proven insufficient in addressing the underlying macroeconomic challenges that confronted South Africa, thereby impeding the achievement of fiscal consolidation.

Regarding the consolidated expenditure by function over the MTEF, the FFC noted that ssuccessive budgets and MTBPS' as tabled by the Minister of Finance continually identified efforts to unblock challenges to government's ability to implement programmes. The FFC noted that the 2023 MTBPS included the establishment of a new agency. The FFC also suggested that government should explore opportunities for integrating interventions so as to leverage the full complement of critical skills and experience that currently exist across individual interventions. This approach could also reduce operating costs in the process.

The FFC submitted that the geopolitical tensions, including the Ukraine-Russia war, have generated several risks for the South African economy, such as uncertain economic growth outlook, inflationary pressures and tightening financing conditions. The global tensions may continue to exacerbate inflationary pressures via higher energy and food prices. This could result in a more rapid tightening of monetary policy and additional fiscal pressures. The FFC stated that public finances would remain constrained in the context of rising global tensions and the economic outlook was constrained by inadequate electricity supply and deteriorating infrastructure. To this end, the FFC encouraged government to move faster in implementing structural reforms to support growth because without sustainable growth, achieving debt stabilisation will necessitate even larger and more harmful spending reductions.

The FFC submitted that in recent months, financial conditions have tightened, pointing to a worsening of the sovereign risk premium and an increase in the financing costs faced by the government. It recommended that government implement fiscal rules that provide a comprehensive framework imposing specific constraints on fiscal policy. These rules aim to cultivate fiscal discipline and ensure the long-term sustainability of public finances.

8.2 Parliamentary Budget Office

The Parliamentary Budget Office (PBO) gave an overview of the MTBPS and stated that over the medium-term, National Treasury's fiscal strategy aimed to achieve fiscal sustainability by reducing the budget deficit and stabilising the debt-to-GDP ratio. However, debt-to-GDP ratios and budget deficits have increased despite National Treasury's commitment to fiscal consolidation as a tool for debt management since 2012.

The PBO submitted that government should provide evidence that austerity measures, such as fiscal consolidation and introducing fiscal anchors, will lead to fiscal sustainability and grow the economy. The presumption that reducing the debt-to-GDP ratio through fiscal consolidation will lead to increased investment has not materialised as expected. Moreover, the structural reforms proposed by the National Treasury cannot transform the economic structure but favour dominant large corporations and financial institutions. These dominant corporations and institutions focus on high short-term returns rather than long-term productive investment, job creation and economic growth.

The PBO submitted that the budget must support building state capacity to empower a developmental state, address the key socio-economic problems in the economy and support structural economic transformation. Furthermore, in the long run, debt reduction and fiscal sustainability may be achieved only through pro-growth demand and supply measures that build resilience and productivity in households and businesses, particularly small and medium businesses.

Regarding contingent liabilities, the PBO submitted that SOEs continued to face deteriorating financial health, reduced capital investment, operational inefficiencies, high costs, heavy debt burdens, and difficulties in securing favourable funding. All of this have real economic implications for households and businesses. Furthermore, these combined challenges raised significant risks to the fiscal framework. The PBO cited Eskom's biggest financial loss ever of R23.9 billion in the 2022/23 financial year; Transnet's profitability and liquidity issues; Denel which is in financial distress and non-submission of Annual Financial Statements since the 2019/20 financial year; and the South African National Roads Agency Limited's investment capacity constraints due to the Gauteng Freeway Improvement Programme.

The PBO highlighted that government's loan guarantee portfolio decreased from R751.9 billion in March 2022 to R663.9 billion in March 2023. Guarantees to SOEs decreased from R543.6 billion in

March 2022 to R448.1 billion in March 2023. This was largely due to a decline in the South African Reserve Bank's (SARB) loan guarantee scheme from R100 billion to R20 billion.
The PBO submitted that many SOEs continued to face significant challenges to adequately finance their operations and servicing debt, let alone making optimal investments in critical infrastructure. Thus, the PBO questioned the current approach to SOEs financing, particularly in light of concerns about the negative implications of an austerity mindset on broader socio-economic outcomes.

8.3 Congress of South African Trade Unions

In its submission, the Congress of South African Trade Union (COSATU) indicated workers and the entire country looked forward to government tabling a bold, decisive and progressive 2023 MTBPS in Parliament. However, National Treasury has again failed to rise to the occasion and instead of tabling a bold MTBPS to stimulate the economy, provide relief to the poor and rebuild the state; it chose to deliver an underwhelming accounting note with reckless proposed budget cuts and below inflation increases to departments over the MTEF.

COSATU submitted that National Treasury's fixation on cutting the public sector wage bill was a lazy option that would not resolve the multiplicity of crises facing South Africa. It indicated that in 1994, South Africa had one million public servants and 34 million people, whereas currently, there are 1.2 million public servants, yet the population nearly doubled to 62 million. COSATU was of the view that South Africa did not have an expenditure crisis but rather a collapse in Company Tax. This came about because of the rapid deterioration in Transnet's capacity to transport mining, manufacturing and agricultural products to external markets timeously. In light of this, COSATU made the following proposals in respect of the MTBPS:

- Transnet must be turned around fast, failing which South Africa will face a mining jobs bloodbath as well as a revenue crisis which no amount of pickpocketing of public servants would fix.
- In order to grow economy, reduce unemployment and thus generate revenue, the state needed to reduce debt and thereafter government needs to address the real obstacles suffocating economy, workers and businesses.
- Government needs to shift away from National Treasury's tried and tired macro-economic policies and table an aggressive budget in Parliament that would protect the poor, rebuild the state and grows economy.
- Government should provide additional support to Eskom, an entity which is turning the corner and making considerable progress to end loadshedding and ensure reliable and affordable electricity.
- Government should urgently intervene at Transnet and the Passenger Rail Agency South Africa (PRASA) to secure and rebuild the freight and passenger railway network and modernise South African ports. Transnet has to be state's number one priority, however, the lack of clear plans in 2023 MTBPS to support these critical SOEs was alarming.
- Interventions should be introduced to stabilise and overhaul dysfunctional municipalities and restore basic services at the local government level. Debt relief provided for various municipalities was positive however this needed to be accompanied by capacity building interventions.
- Additional resources should be allocated to the South African Revenue Service (SARS) to address tax and customs evasion, conduct lifestyle audits of the wealthy and to generate badly needed state revenue. SARS has proven itself to be remarkably efficient and therefore needed to be given further funding to increase tax compliance from 64 per cent to 70 per cent over next two years. This will generate an additional R120 billion in state revenue.
- Critical frontline vacancies in public service needed to be filled, especially in the South African Police Service, National Prosecuting Authority, and at courts. This will enable these institutions to crack down on crime and corruption.
- Relief should be provided to commuters and the economy by reducing taxes which consumed 28 per cent of the fuel price. Also, the Road Accident Fund needed to be placed under administration to lessen its need for fuel levy hikes.
- The Presidential Employment Programme should be expanded to accommodate the two million active participants by in the 2023 national budget. This will help young people to earn a salary, gain work experience and to enter the labour market.
- The SRD grant should be enhanced to recover the value lost to inflationary erosion by raising the grant to the Food Poverty Line and to link its recipients to skills development initiatives and jobs.
- Infrastructure investment should be expedited and not frozen as this as badly needed by the economy.

- Government should ensure that the two-pot pension reforms are implemented in 2024. Also, the immediate relief should be increased to R50 000 for indebted workers, injecting a badly needed stimulus into economy.

8.4 Budget Justice Coalition

The Budget Justice Coalition (BJC) noted the tabling of the 2023 MTBPS and stated that the budget policy was a powerful tool for socio-economic advancements and lifting people out of poverty. Unfortunately, BJC was of the view that the MTBPS proposed downward adjustments to social spending areas that need to redress our rising levels of inequality adequately. It called on Parliament to consider the human rights implications which the proposed nominal budget cuts presented and advance more equitable interventions to protect the right to basic education, access to health care, nutrition and other Constitutionally guaranteed rights for all in our country.

BJC viewed the extension of the Covid-19 Social Relief of Distress Grant (SRD Grant) until March 2025 as a short-term solution. It submitted that the 2023 MTBPS provided additional allocations to provinces to cover the cost of salary increases in terms of the public sector wage settlement. However, these allocations were only for some sectors, such as health and education, but there were no additional allocations for social development. The public sector wage agreement, taken at a national level, must be implemented by the provinces. Provinces will thus be forced to meet the salary agreements made at a national level without sufficient funding.
Regarding procurement reform, the BJC submitted that the current legislative amendments found in the Public Procurement Bill, 2023 must clearly outline adequate access to information and open data, along with active and timely responses to requests for information. The Bill worryingly proposed to centralise power to the Public Procurement Office and the Minister of Finance, which posed significant risks as evidenced by SOEs.

In respect of youth employment, BJC highlighted that the 2023/24 national budget allocated R42.9 billion towards job creation and enterprise development programmes over the MTEF period. This comprised R20.6 billion in 2023/2024; R11.1 billion in 2024/2025 and R11.2 billion in 2025/2026. The sharp decline in the last two years resulted from the decision not to provide further funding for the Presidential Employment Stimulus (PES). The R20.6 billion spending in the first year included R16.8 billion for the country’s three public employment programmes (PEPs). These were the PES (R9.4 billion), the Community Works Programme (R4.3 billion) and the Expanded Public Works Programme (EPWP) (R3.1 billion). BJC submitted that the youth accounted for 83 per cent of PES beneficiaries, 55 per cent of EPWP beneficiaries and less than 20 per cent of CWP beneficiaries. It submitted that the reduction of spending on other PEPs to pay for the extension of the PES was not recommended and that the budget for the PES must be long-term and ring-fenced for at least three years. BJC made the following recommendations in terms of the MTBPS:

- It reiterated its call for gender-responsive budgeting (GRB) to be implemented with various inputs from stakeholders; with clarity being provided on the guidelines and avenues for engagement by stakeholders.
- The Participatory Human Rights Impact Assessment (HRIA) must be inculcated more deliberately in the 2024 budget and MTBPS, ensuring that any revenue-raising mechanisms do not increase inequality and undermine people's rights to access quality basic education and healthcare services.
- Investment in the quality provision of basic education services and transparent, cost-effective and accountable public procurement within the education sector are encouraged, as continuous budget cuts to Education and ECD programmes fail to protect and prioritise the development and well-being of children living in South Africa.
- Over the past decade, health care funding has seen real-term cuts, with the main budget for 2023 cutting funding by 4.9 percent in real terms and cuts to programmes such as HIV/ AIDS, TB and health care infrastructure should be addressed urgently, as reducing the quantum of spend will threaten the quality of health services provided.
- The SRD grant must be expanded, and its value increased to the Food Poverty Line of R760. Furthermore, the grant must be considered in the MTEF while working with stakeholders on pathways towards a Universal Basic Income Grant (UBIG) and pursuing additional sources of finance and tax revenue for an UBIG. Challenges hindering access to the SRD grant must be resolved, such as the exclusionary online-only application process and flawed bank and database verification processes.

8.5 Property Point

The key focus of Property Point`s submission was on the impact of the grim economic outlook on the small, medium and micro enterprises (SMMEs). It covered the demonstrable and possible retardation of the business relationship between small businesses and customers. Property Point noted the growth in the construction, transport, and the communication sectors, irrespective of the current bad economic outlook. It also mentioned the ripple effects of the slow economic growth which included reduced consumer spending, higher competition, and the rising level of unemployment.

Property Point registered its concerns on the country`s fiscal deficit and the debt service costs, which continued to exacerbate South Africa`s fiscal wellbeing. It further submitted that the projected annual borrowing of an average of R553 billion would contribute to the rising debt from R4.8 trillion in the current financial year to R6 trillion in 2025. Property Point also highlighted the following adverse effects of the fiscal deficit and debt service cost on small businesses below:

- Uncertainty about the possible sources of revenue to address gaps in the fiscal deficit casted doubt on high taxes and this threatened the sustainability of the small businesses.
- Consumers will have less buying power due to constraints caused by high inflation rates and therefore, small businesses would be negatively affected.
- South Africa`s credit rating might be affected due to the high levels of borrowing and investments in property would reduce, thus, disadvantaging small businesses.

Property Point welcomed the strides made by government in its intent to address the electricity crisis through the additional generation capacity, thereby committing to the renewable energy investments and improved operational efficiency. This initiative would improve business opportunities for small businesses. Notwithstanding this, Property Point registered its concern that the intermittent power cuts and loadshedding had deeply affected small businesses.

Property Point highlighted its deep concerns on the impact of underperformance by Transnet, considering that small businesses were heavily reliant on the transporting of goods by the entity. Failure or delays in addressing Transnet’s problems will among others, disadvantage the small businesses through delayed delivery of goods by customers of the small businesses.

It also welcomed government`s plans to revamp infrastructure through the creation of a strong and conducive infrastructure ecosystem. It highlighted that this initiative would help to unlock growth for the small businesses. On the socio-economic impact of the 2023 MTBPS, Property Point lauded government for the allocation of R34 billion for the extension of the SRD grant. However, this included a disclaimer on the lack of an update on the progress made regarding the forty percent of preferred public procurement by women-owned enterprises to achieve equality.

8.6 Equal Education

Equal Education (EE) submitted that the full realisation of the right to quality basic education for all learners could not be achieved without adequate funding to national and provincial education departments, and schools themselves to conduct the business of education provision. Adequate funding for the schooling sector must consider important factors such as rising inflation and learner enrolment, and systemic inequalities in the system, as well as the evolving needs of the sector broadly.

EE submitted that whilst the national budget allocation was almost a billion rand higher than projected in the 2022/23 MTEF, this additional allocation did little to address the funding gaps in the sector once inflation was considered. EE was concerned that when inflation was taken into account, the main budget decreased by 2.63 per cent, which was much lower than the anticipated real decrease of 1.7 per cent projected in the 2022/23 MTEF. Despite the sector facing resource, infrastructure, and learning crises, the 2023/24 MTEF showed a continuation of existing trends in basic education, where funding does not keep pace with inflation, growing learner enrolment, and the real costs of providing education services across the provinces. This was unfortunately a continuation of existing trends in basic education funding. The impact of this was borne by learners attending public schools across the country who rely entirely on government funding.

EE further submitted that budget allocation is only one piece of the crisis puzzle and continued that the education sector, from national and provincial education departments to the school level, suffered from endemic spending challenges characterised by underspending, irregular spending, and fruitless and wasteful expenditure. EE made the following recommendations:

- That National Treasury should adopt a progressive approach to basic education funding that ensures that education budgets grow in line with inflation and learner enrollment at the very least.
- That the relevant Committees should take their oversight responsibilities seriously, by ensuring efficiency and effectiveness in departments' use of available resources to achieve quality service delivery, particularly in basic education.
- That the Committees work in the public's interest by implementing the Zondo Commission recommendations on parliamentary practice.
- That the Committees ensure that proper oversight is provided if and when the Norms and standards get brought to parliament for amendment.

9 Committee observations and findings on the 2023 MTBPS

The Standing Committee on Appropriations, having considered the 2023 Medium Term Budget Policy Statement, and having engaged with the various stakeholders, makes the following findings and observations:

9.1 The Committee notes that consolidated government spending is projected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing at an annual average of 4.6 per cent whit the economic development function accounting for the largest share of this growth, while the debt service costs grow at the fastest rate, averaging 8.7 per cent per year.

9.2 The Committee notes that over the next three years, government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces and 9.9 per cent to local government.

9.3 The Committee notes that the cumulative effects of power cuts, poor rail transport performance, high inflation, rising borrowing costs and a weaker global environment are forecast to limit economic growth over the medium term. However, the Committee implores government to pay closer attention and intervene with the required speed to address both the electricity and rail transport challenges facing South Africa. The Committee also notes the submission by the FFC that encourages government to move faster in implementing structural reforms to support growth because without sustainable growth, achieving debt stabilisation will necessitate even larger and more harmful spending reductions. Furthermore, the Committee notes and welcomes the submission by COSATU that Transnet must be expeditiously turned around, failing which South Africa will face jobs bloodbath as well as revenue crisis.

9.4 The Committee notes that National Treasury projects that the South African economy will grow by 0.8 per cent in 2023, compared to the 0.9 per cent projected in the 2023 Budget Review, while averaging at 1.4 per cent from 2024 to 2026. Whilst noting these economic growth projections, Committee is concerned that the 2023 MTBPS is silent on government's efforts to continue implementing the South African Economic Reconstruction and Recovery Plan. The Committee is of the view that being silent on this key government plan to resuscitate the economy brings more uncertainty about its status as a blueprint of government economic plan.

9.5 The Committee notes and welcomes government's commitment to maintaining a balanced fiscal stance that will promote economic growth and support the most vulnerable members of the society, while stabilising the public finances and reducing fiscal and economic risks. Furthermore, the Committee notes that government remains committed to controlling the public service wage bill, while protecting crucial frontline services and implementing efficiency measures.

9.6 The Committee notes and welcomes the fact that while government is targeting spending revisions, the baseline budgets for basic education, health and the police are protected. The Committee views these sectors as critical in government social policy objectives.

9.7 The Committee notes that the net total adjustments included in the 2023 Adjustments Appropriation Bill amounts to R10.3 billion, including the reductions due to significant unforeseen and unforeseeable events totalling R21.7 billion. However, the Committee is concerned that the largest adjustments are to local government conditional grants, health care programmes and infrastructure and social grants. The Committee is concerned that these reductions pose a threat to local government's ability to deliver on critical basic services, a situation made worse by the know poor financial performance by the majority of municipalities.

9.8 The Committee notes with concerns the admission by National Treasury that even though additional funding has been provided to implement the 2023 public-service wage bill, provincial education departments are constrained in hiring additional teachers, leading to larger class sizes and higher learner-teacher ratios, potentially resulting in weaker educational outcomes. Even though the Committee supports government's fiscal consolidation drive, this should not be at the expense of critical sectors like education and health where the poor majority of South Africans are dependent on. Furthermore, the Committee is of the view that if this risk is realized, it will further widen the poverty and inequality gap in South Africa, a key problem that is at the centre of government redress policies.

9.9 The Committee notes with concerns that institutions in the post-school education and training sector, including the National Student Financial Scheme will need to bring their student enrolment and bursary allocations in line with their budgets, due to government fiscal consolidation drive. Even though the Committee is not opposed to government's fiscal consolidation exercise, it would like to remind government that fee-free higher education is an adopted policy of government. Consequently, no potential student should be denied enrolment in higher education institution because of the lack of funding, but denial of entry should solely be based on institutional capacity and institutions entrance policies, not funding shortfalls.

9.10 The Committee notes that while the health sector is aiming to maintain service delivery amid budget constraints, baseline reductions are being implemented as part of fiscal consolidation. While the Committee is in agreement that the sector will need to improve efficiency, the Committee is concerned about the impact this might have on the medical supplies and security services. Furthermore, the Committee is also concerned about delaying health infrastructure projects, primarily because these health infrastructure projects are benefiting the majority and poorest of the poor South Africans. Furthermore, the Committee notes and welcomes the submission by COSATU that infrastructure investment should be expedited and not frozen as this as badly needed by the economy.

9.11 The Committee notes and welcomes that the Covid-19 social relief of distress grant will be extended for another year until March 2025 while government considers social security policy reforms and a funding model. However, the Committee implores government to address the policy uncertainty with speed to ensure that the beneficiaries do not stay without knowing what will happen in the short to medium term. The Committee is of the view that this grant is a very important intervention by government, therefore certainty around its existence is paramount.

9.12 The Committee notes that the South African Police Services will have to contain costs and streamline operations as headcounts decline due to natural attrition, while fostering partnership with communities and implementing reforms to optimise resource allocation, training and technology. However, the Committee would like to caution government against using natural attrition to save funds within the peace and security function, given the high levels of crime that South Africa is facing, particularly crime against the vulnerable group (children, women, the elderly and people living with disabilities) and other external treats that our neighbouring countries are currently facing. Furthermore, the Committee notes and welcomes the submission by COSATU that critical frontline vacancies in public service needed to be filled, especially in the South African Police Service, National Prosecuting Authority, and at courts.

9.13 The Committee notes and welcomes that government is prioritizing the filling of critical posts in the Boarder Management Agency.

9.14 The Committee notes the submission by the PBO that government should provide evidence that austerity measures, such as fiscal consolidation and introducing fiscal anchors, will lead to fiscal sustainability and grow the economy because the presumption that reducing the debt-to-GDP ratio through fiscal consolidation will lead to increased investment has not materialised as expected. Furthermore, the Committee notes and welcomes the submission by the PBO that the budget must support building state capacity to empower a developmental state, address the key socio-economic problems in the economy and support structural economic transformation.

9.15 The Committee notes the submission by COSATU that government should provide additional support to Eskom to end loadshedding and ensure reliable and affordable electricity. The Committee s of the view that the Eskom Debt Relief arrangements government is addressing these concerns from COSATU.

9.16 The Committee notes and welcomes COSATU's submission that additional resources should be allocated to the South African Revenue Service (SARS) to address tax and customs evasion, and to generate badly needed state revenue. However, the Committee is of the view that the proposed additional allocation of R1 billion to SARS is intended to improve the capacity and efficiency of SARS, in a constrained fiscal consolidation environment.

10 Recommendations

The Standing Committee on Appropriations having considered the 2023 Medium Term Budget Policy Statement, recommends as follows:

10.1 That the Mister of Public Enterprises and the Minister of Transport ensures that the Department of Public Enterprises and the Department of Transport urgently intervene on the issues affecting the performance of Transnet, the rail network and PRASA.

10.2 That government should ensure that all qualifying student benefit from the National Student Financial Aid Scheme as this is an adopted policy of government and no student should be denied entry to institutions of higher learning because of lack of funding. Government must always make funds available for qualifying students, as long as the free-fee higher education is a policy of government.

10.3 That the Minister of Basic Education must ensure that budget cuts to the sector due to fiscal consolidation does not affect the education because of constrains in hiring additional teachers, leading to higher class sizes and higher learner-teacher ratios.

10.4 That government expedite the process and consultations around social security policy reforms and funding models in order to end the uncertainty around the Social Relief of Distress Grant.

10.5 That government ensures that fiscal consolidation does not compromise infrastructure investments in the health sector primarily because these health infrastructure projects are benefiting the poor majority of South Africans.

10.6 That government continues to implement the Economic Reconstruction and Recovery Plan, while also ensuring the localisation of procurement and the overall spending of government.

11 Conclusion

The Committee appreciates the efforts made by the stakeholders who responded to the advertisements and participated in the 2023 MTBPS engagement with the Committee. All their valuable contributions are appreciated by the Committee and are taken very seriously. The Committee would further discus your inputs with the relevant departments. However, Parliament appreciates and values your contribution and participation in these processes, as it not only a constitutional requirement for public involvement but also a moral duty to be transparent in all the decision-making processes of Parliament. You are all appreciated.

The responses and implementation plan by the relevant Executive Authorities to the recommendations, as set out in section 10 above, must be sent to Parliament before the tabling of the 2024 national budget by the Minister of Finance.

Report to be considered.