FINANCE PORTFOLIO COMMITTEE

1. ADOPTED OVERSIGHT REPORT ON THE DIVISION OF REVENUE BILL [B4-2024] – SECTION 76 – FINAL VOTING MANDATE

The Chairperson of the Finance Portfolio Committee (Portfolio Committee), Mr. P. Malema tabled a report on the Division of Revenue Bill *[B4-2024] (the* Bill).

1.1 INTRODUCTION

The Division of Revenue Bill [B4-2024] was tabled by the Minister of Finance in the National Assembly on 21 February 2024. The Bill is introduced in terms of section 76 of the Constitution of the Republic of South Africa, 1996 ("the Constitution") and it is widely referred to as a section 76 Bill. The Bill is introduced annually to give effect to Section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1990 ("IGFRA"). The Bill provides for the equitable division of revenue anticipated to be raised nationally among the national, provincial, and local spheres of government for the 2024/25 fiscal year.

The medium-term fiscal policy is focusing on achieving fiscal sustainability by narrowing the budget deficit and stabilizing debt; promoting economic growth by increasing spending on priorities such as security and infrastructure; and reducing fiscal economic risks, including through targeted support to key public entities and building fiscal buffers against future shocks.

To this effect, the 2024 budget prioritizes macroeconomic stability, structural reforms, and improving state capacity, which should improve the environment for public and private investment; protecting critical services, supporting economic growth through reforms and public investment, and stabilizing public debt; spending on education, health, social protection, community development and employment programmes; achieving primary budget surplus; and reducing debt service costs, as such is critical for growth and development.

1.2 PROCESS FOLLOWED

The Speaker of the Gauteng Provincial Legislature formally referred the Bill to the Finance Portfolio Committee ("Portfolio Committee") for consideration in terms of Gauteng Provincial Legislature Standing Rule 245(1) read with 247 (1) and 248.

On Tuesday, 16 April 2024, the Portfolio Committee received a briefing on the Bill from the NCOP permanent delegate, Hon. Dennis Ryder, supported by officials from National Treasury.

As required by the Standing Rules of the Gauteng Provincial Legislature, the Portfolio Committee invited public submission on the Bill through print media. No submissions were received.

On Friday, 19 April 2024, the Portfolio Committee received the Gauteng Executive Council's view, the socio-economic impact analysis, and the legal opinion on the Bill. Thereafter, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

On Wednesday, 24 April 2024, the Committee received minutes from the Select Committee of Appropriation on the consideration of negotiating mandates on the Division of Revenue Bill [B4-2024], which confirmed that there were no amendments to the Bill, as referred.

1.3 PRINCIPLE AND DETAIL OF THE BILL AND THE GOVERNMENT'S POLICY PRIORITIES FOR THE 2024 MTEF

To provide for the equitable division of revenue raised nationally among the national, provincial, and local spheres of government for the 2024/25 financial year; the determination of each province's equitable share; allocations to provinces, local government, and municipalities from national government's equitable share; the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

The allocations to the three spheres of government for the 2024/25 fiscal year and MTEF are informed by national interest encapsulated in government priorities that benefit the nation. These priorities are outlined in the National Development Plan, which sets out the countries long-term development trajectory. Complemented by the strategic integrated projects overseen by the Presidential Infrastructure Coordinating Council and the seven priority outcomes adopted by Cabinet in 2019-2024 Medium Term Strategic Framework (MTSF).

In addition, the Division of Revenue for the 2024/25 financial year is mainly in line with the recommendations made by the Financial and Fiscal Commission ("FFC"), which is mandated by Section 220 of the Constitution to provide information to all organs of state to make informed decisions about complex fiscal matters. The FFC consults on these matters with all the three spheres of government.

1.4 CONSTITUTIONAL AND STATUTORY FRAMEWORK

Section 214 of the Constitution requires that an Act of Parliament must provide for:

- The equitable division of revenue raised nationally among National, Provincial, and Local spheres of government;

- The determination of each province's equitable share of the provincial share of that revenue; and

- Any other allocations to provinces, local government, or municipalities from the national government's share of that revenue, and for any conditions on which those allocations may be made.

Furthermore, section 7(3) of the Money Bills Amendment Procedure and Related Matters Act, 2009, requires the introduction of the Division of Revenue Bill be at the same time as the Appropriation Bill is introduced.

The Intergovernmental Fiscal Relations Act 97 of 1997 sets out the process for the division of nationally raised revenues between the three spheres of government. It establishes the Budget Forum, in which local government issues are discussed as part of the national budget process. It also requires that a Division of Revenue Bill be tabled annually, setting out (among other things) the amounts to be transferred to each municipality.

The Bill seeks to amongst others, give effect to the provisions of Section 214 of the Constitution. These include national interest and the division of resources, provision for debt costs, national government's needs and interests, provincial and local government basic services, fiscal capacity and efficiency, developmental needs, economic disparities, obligations in terms of national legislation, predictability, and stability, and of importance, flexibility in responding to disasters. **The Portfolio Committee noted that the introduction of the bill complies with the Constitution, the Intergovernmental Fiscal Relations Act, 1997, and the Money Bills Amendment Procedure and Related Matters Act, 2009.**

1.5 OUTCOME OF THE NEGOTIATING PROCESS

The Committee mandated Hon. Ryder to table the negotiating in favour of the Bill, with the following four recommendations:

1.5.1 That National Treasury should ensure that updated data is utilized to inform revenue sharing formula, as failure to do so may compromise fairness in revenue sharing;

1.5.2 That National Treasury should ensure that municipalities are adequately capacitated to leverage on their revenue raising powers, as it is currently not the case with most municipalities;

1.5.3 That National Treasury should prioritize macroeconomic stability, structural reforms and improved capacity of the state, as such is a precursor for public and private investments; and

1.5.4 That National Treasury should reduce debt-service costs without compromising government service delivery imperatives, as the latter crowds out financial resources intended for service delivery.

Seven provinces voted in favour of the Division of Revenue Bill [B4-2024] as referred, the negotiating mandate for the Limpopo province was not ready, and the Western Cape Province did not support the Bill. Responses are awaited from National Treasury on the recommendations by provinces.

1.6 SOCIO-ECONOMIC IMPACT

From the social perspective, funding is allocated to empower provinces and municipalities, enabling them to provide essential services like health care, housing, education, water supply, and electricity. These funds would enhance health and education services, ultimately contributing to the overall well-being and stability of communities. Resources are therefore directed toward critical services, benefiting both individuals and communities.

Whilst, on the other hand, the Bill aims to bolster economic growth by implementing a variety of reforms, including an infrastructure build programme. Furthermore, it seeks to tackle economic and fiscal disparities by utilizing equitable share formulas grounded in principles of fairness and stability.

1.7 VIEW OF THE GAUTENG PROVINCIAL EXECUTIVE COUNCIL ON THE BILL

The Gauteng Executive Council supports the principle and the detail of the Bill.

1.8 FINANCIAL IMPLICATIONS OF THE BILL

Due to the country's limited public resources being under strain for the past decade, characterized by poor levels of growth not addressing joblessness and poverty, government borrowing shooting over the ceiling to support expenditure, and debt-service costs overcrowding service delivery. The 2024 Budget strikes a careful balance between the urgent demands of national development and the sustainability of our public finances. In the context of persistently low GDP growth, government is protecting critical services, supporting the economy through reforms and public investment, and stabilising public debt.

The 2024 Budget reverses a substantial portion of the spending reductions initially proposed at the time of the 2023 Medium Term Budget Policy Statement (MTBPS). Over the MTEF period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48% of nationally raised funds are allocated to national government, 42.2% to provincial government and 9.8% to local government. Therefore, provinces will be able to fund the wages of teachers, nurses, doctors and other critical skills that are essential for service delivery. Yet, fiscal consolidation remains in place, affecting mainly conditional grants and transfers to local government. For the 2024 MTEF period, provinces and municipalities are allocated R2.8 trillion or 51.1% of total non-interest spending. Of this amount, R2.3 trillion goes to provinces, while local governments receive R531.7 billion.

Direct national transfers to provinces are projected to increase from R706.4 billion in the 2023/24 FY to R729.5 billion in the 2024/25 FY and grow at an average rate of 3.8% annually to reach R790.8 billion in the 2026/27 FY. The transfers include R600.5 billion for the provincial equitable share and R129 billion for conditional grants. Transfers to local governments tend to hang around 10% of total revenue. However, when own revenue raised by local government is included, local government accounts for 28 % of the total. Over the 2024 MTEF period, the local government equitable share, amounts to R317.9 billion (R101.2 billion in the 2024/25 FY, R106.1 billion in the 2025/26 FY and R110.7 billion in the 2026/27 FY). Whilst the total value of conditional grants directly transferred to local government grows from R53 billion in the 2024/25 FY to R54.7 billion in the 2025/26 FY and R55.5 billion in the 2026/27 FY.

Over the next few years, government plans to increase its consolidated government spending from R2.3 trillion in the 2023/24 FY to R2.6 trillion in the 2026/27 FY, with an annual growth rate of 4.6%. The bulk of this spending will go towards supporting the social wage, which is a crucial aspect of government's commitment to social welfare.

The national share of revenue increases at an annual average rate of 2.6%, transfers to provinces increases at an annual average rate of 3.8%, due to additional allocations to equitable share, mainly for education and health, while transfers to local government grow at an average annual average rate of 5.2%. Although the revenue base is concentrated in urban areas, rural areas receive more per capita allocations through the division of revenue. This is evident in that transfers per household to most rural municipalities are more than those to metropolitan municipalities. Furthermore, rural provinces receive higher allocation per capita than urban provinces. **The Portfolio Committee noted with appreciation that the division of revenue is highly redistributive, as it provides social safety nets to the poorest of the poor.**

The reprioritization of government spending aims to redirect public resources to spending areas that promote the attainment of government policy priorities, while remaining within the expenditure envelope. The 2023 Medium-Term Budget Policy Statement announced that the education and health sector would receive additional R68.2 billion to cover the carry-through cost of 2023 public-service wage agreement through the provincial equitable share. These funds consist of R3.9 billion which has since been redirected to the provincial conditional grants in these two sectors to fund employee compensation; R136 million that has been redirected to the conditional grants in the education sector and R3.8 billion to the conditional grants in the health sector; whilst the remaining R64.2 billion remains in the provincial equitable share and is allocated to provinces through the equitable share formula. The budget allocates additional funding totalling R37.3 billion to the provincial equitable share over the MTEF period, mainly for education and health, to continue to support provinces with the cost pressures emanating from the public-service wage agreement.

Excluding the debt-service costs and the contingency reserves, the total revenue raised and to be allocated between the three spheres of government, amounts to R1.7 trillion in the 2024/25 FY, increasing to R1.8 trillion in the 2025/26 FY and climaxing to R1.9 trillion in the 2026/27 FY. **Of importance, the Portfolio Committee noted that these allocations take into consideration government's spending priorities, each sphere's revenue-raising capacity and responsibilities, and input from various intergovernmental forums and the Financial and Fiscal Commission.** Of importance the provincial and local equitable share formulas are designed to ensure fair, stable and predictable revenue shares, and to address economic and fiscal disparities**.**

1.9 FINAL POSITION ADOPTED BY COMMITTEE

After due consideration, the Finance Portfolio Committee in accordance with Rule 163, adopted the report in support of the Division of Revenue Amendment Bill [B4-2024] Section 76, as referred and recommends its adoption by the House.

1.10 ACKNOWLEDGEMENTS

The Portfolio Committee extends gratitude to the Honourable MEC J. Mamabolo, the Head of Department Ms. N. Mnyani, and officials of the Gauteng Provincial Treasury for their cooperation during the processing of the Bill.

Thanks, and appreciation to all Members of the Finance Portfolio Committee, Dr. B. Masuku; Dr. M.R. Phaladi-Digamela; Ms. R. Mogale; Mr. S. Khanyile; Mr. R. Robinson, Mr. M. Moriarty, Ms. D. Mdlankomo; and Ms. A de Lange.

The Committee's gratitude is extended to the following support staff: Group Committee Coordinator Mr. T. Bodibe, Senior Committee Coordinator Mr. J. Ntsane; Researcher Ms. L. Chiloane; Legal

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