Report of the Select Committee on Appropriations on the Division of Revenue Bill [B4 - 2024], Dated 30 April 2024

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B4 – 2024] (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 2024 Budget, including the *Division of Revenue Bill* [B4 – 2024] (the Bill) in the National Assembly on 21 February 2024.

The purpose of the Bill is to provide for –

(a) the share of each sphere of government of the revenue raised nationally for the relevant financial year;

(b) 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.

2. Legislative framework guiding the process, 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 26 March 2024, 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 practice, the Committee invited all provincial portfolio committees on Finance and/or Treasury to be part of the briefing by the National Treasury, on 06 March 2024. The same approach was followed on 20 March 2024, when the Committee, 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) and on 27 March 2024 when it consulted with the Parliamentary Budget Office (PBO) and the South African Local Government Association (SALGA), in compliance with Section 15 of the Money Bills Act and Section 214(2) of the Constitution, respectively.

As per Section 72 of the Constitution and Section 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. In response, written submissions were received from the following stakeholders, all of whom also made oral representations during a public hearing on 13 March 2024:

- Amandla.mobi.
- Budget Justice Coalition.
- Congress of South African Trade Union.
- Equal Education and Equal Education Law Centre.
- Rural Health Advocacy Project.
- Section27.
- TB Accountability Consortium.
- Western Cape Children's Commissioner.

The NCOP, through the Committee Members, briefed provinces on the Bill between 16 and 20 April 2024. The Committee received and considered the provincial negotiating mandates on 24 April 2024 and final mandates on 30 April 2024. 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.

3. Overview of Bill

The 2024 Budget aims to strike a balance between the urgent need for development and the necessity to maintain the fiscal sustainability of the country's public finances by protecting critical services, continued economic support which prioritises reforms and public investment, and stabilising public debt. Additional government revenues and a marginal decline in debt-service costs allow the 2024 Budget to reverse some of the reductions that were announced in the 2023 Medium Term Budget Policy Statement (MTBPS). However, as fiscal consolidation measures remain in place, provincial and local government will continue to experience reductions in conditional grant transfers.

The Budget amounts to R2.1 trillion, which is a nominal increase of R101.4 billion or 5 percent from the adjusted allocation of R2.0 trillion in 2023/24 financial year. Over the 2024 Medium Term Expenditure Framework (MTEF) period, the budget is projected to increase to R2.4 trillion by 2025/26 at an average rate of 5.4 percent, as can be seen in Table 1 below.

Table 1: Equitable division of revenue raised nationally

Spheres of Government	**Column A**	**Column B**	
		Forward Estimates	
	2024/25	**2025/26**	**2026/27**
	R'000	**R'000**	**R'000**
National allocations[1,2]	1 434 313 321	1 522 047 226	1 606 856 491
Provincial allocations	600 475 640	627 441 853	655 704 215
Local government allocations	101 177 734	106 087 022	110 661 361
Total allocations	**2 135 966 695**	**22 255 576 101**	**2 373 222 067**

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: 2024)

For 2024/25 fiscal year, the national government sphere received R1.43 trillion, which is an increase of R63.8 billion or 4.7 percent from the 2023/24 adjusted allocation of R1.37 trillion; while the provincial sphere receives R600.5 billion and the local sphere R101.2 billion. Proportionally, the national share of the total nationally raised revenue, equals 67.2 percent, the provincial share 28.1 percent, and the local government share 4.7 percent. However, when excluding the contingency reserve and debt service costs national government receives 48.5 percent and the provincial and local governments' actual shares increase to 41.7 percent and 9.7 percent, respectively.

4. Provincial allocations

4.1 Provincial Equitable Share allocations

The Provincial Equitable Share (PES) for 2024/25 amounts to R600.5 billion, which is R32.9 billion more than the adjusted PES allocation of R567.5 billion in 2023/24. To account for the carry-through cost of implementing the 2023 public service wage agreement, particularly in the Education and Health sectors, the 2023 MTBPS announced that provinces would receive an additional allocation of R68.2 billion over the 2024 MTEF, which would be disbursed through the PES. However, it will now be disbursed as follows: R64.2 billion will be disbursed through the PES formula and R3.9 billion through the Education and Health conditional grants to fund employee compensation. Over the 2024 MTEF, the PES is projected to grow marginally at an average nominal rate of 4.5 percent to R655.7 billion in 2026/27, which is below the projected average inflation rate of 4.6 percent. Table 2 below shows that the transfers to provincial government in 2024/25 amount to R600.5 billion for the PES and R129.0 billion conditional grant funding. Included in the conditional grant allocation is an unallocated amount of R149 million, which is set aside for the Provincial Disaster Response Grant for the 2024/25 financial year and is only released once a disaster has been declared.

Table 2: Provincial Equitable Share and conditional grant allocations

Province	**Column A**		**Column B**	
	Equitable share 2023/24	**Conditional Grants 2024/25**	**Equitable share forward Estimates**	
			2024/25	**2025/26**
	R'000	**R'000**	**R'000**	**R'000**
Eastern Cape	78 093	14 759	81 550	84 495
Free State	33 091	9 548	34 582	36 188
Gauteng	127 992	27 891	133 771	139 994
KwaZulu-Natal	121 145	25 396	126 360	131 972

Limpopo Mpumalanga Northern Cape North West Western Cape Unallocated	69 625 49 499 16 143 42 816 62 071	11 779 10 099 5 224 9 284 14 854 149	72 925 51 739 16 905 44 882 64 728	76 482 54 150 17 727 47 109 67 588
Total	**600 476**	**128 984**	**627 442**	**655 704**

Given the persistent spending pressures due to the rising costs of basic and social services, and the continued reductions to conditional grant transfers, provinces need to prioritise the management of their resources through strategic planning, structural reforms and committing to robust financial management to ensure that critical services are not negatively affected.

4.2Proposed changes to provincial grant allocations

A total of R3.9 billion is added to the baselines of direct conditional grant transfers to provinces over the 2024 MTEF, of which R1.2 billion is allocated in 2024/25. Reductions of R23.9 billion and R2.3 billion are proposed to the baselines of direct and indirect conditional grants, respectively, over the 2024 MTEF. The net effect of the additions and reductions to both direct and indirect grants for the 2024/25 financial year, is a reduction of R4.6 billion.

4.2.1 Addition to baselines

R1.2 billion is added to the Education and Health grant baselines to cover the carry-through cost of implementing the 2023 public service wage agreement in the Education and Health sectors. The R1.2 billion is effected through technical adjustments that amount to a total addition of R3.9 billion over the 2024 MTEF.

4.2.2 Reductions to baselines

- A reduction of R176 million is made to the Education Infrastructure Grant, with a total reduction of R612 million over the MTEF.
- A reduction of R445 million is made to the Provincial Roads Maintenance Grant, with a total reduction of R2.7 billion over the MTEF.
- A reduction of R36 million is made to the Comprehensive Agriculture Support Programme (CASP) Grant, with a total reduction of R179 million over the MTEF.
- A reduction of R200 million is made to the Ilima/Letsema Projects Grant, with no additional reductions proposed over the latter two years of the MTEF.
- A reduction of R297 million is made to the Early Childhood Development (ECD) Grant, with a reduction of R1.1 billion over the MTEF.
- A reduction of R6 million is made to the HIV and AIDS (Life Skills Education) Grant, with a total reduction of R20 million over the MTEF.
- A reduction of R9 million is made to the Maths, Science and Technology Grant, with a total reduction of R38 million over the MTEF.
- A reduction of R663 million is made to the District Health Programmes Grant, with a total reduction of R4.1 billion over the MTEF.
- A reduction of R220 million is made to the Health Facility Revitalisation Grant, with a total reduction of R1.1 billion over the MTEF.
- A reduction of R29 million is made to the direct National Health Insurance (NHI) Grant, with a total reduction of R182 million over the MTEF.
- A reduction of R1.4 billion is made to the Human Settlements Development Grant, with a total reduction of R5.3 billion over the MTEF.
- A reduction of R1.2 billion is made to the Informal Settlements Upgrading Partnership Grant, with a total reduction of R7.2 billion over the MTEF.
- A reduction of R143 million is made to the baseline of the Expanded Public Works Programme (EPWP) Integrated Grant, with a total reduction of R468 million over the MTEF.
- A reduction of R140 million is made to the baseline of the Social Sector EPWP Incentive Grant for Provinces, with a total reduction of R459 million over the MTEF.
- A reduction of R29 million is made to the Community Library Services Grant, with a total reduction of R176 million over the MTEF.
- A reduction of R13 million is made to the Mass Participation and Sport Development Grant, with a total reduction of R80 million over the MTEF.

- A reduction of R3 million is made to the Provincial Disaster Response Grant, with a total reduction of R19 million over the MTEF.
- A reduction of R530 million is made to the indirect School Infrastructure Backlogs Grant, with a total reduction of R1.5 billion over the MTEF.
- A reduction of R228 million is made to the indirect NHI Grant, with a total reduction of R733 million over the MTEF.

4.2.3 Shifting of funds
A total of R733 million is shifted from the indirect National Health Insurance Grant to the National Tertiary Services Grant. This shift allows for the funding of oncology services to be consolidated under a single grant. The funds will be used for the continued development and expansion of tertiary services.

5. Local government allocations
5.1 Local Government Equitable Share
The Local Government Equitable Share (LGES) for 2024/25 amounts to R101.2 billion, which is R4.6 billion more than the R96.5 billion allocated in 2023/24. The LGES is projected to grow at an average nominal rate of 4.6 percent over the 2024 MTEF to R110.7 billion by 2026/27. Changes in the LGES share of municipalities are due to changes in the demographic or administrative data, which is accounted for in the LGES formula. The formula is being updated in various ways, including improving its responsiveness to the different functions assigned to district and local municipalities; and will be refined to include reforms such as exploring the feasibility of introducing cost differential models; community services components for health services and firefighting functions; objective criteria for benchmarking municipalities in relation to their administrative functions; and infrastructure financing options for small and rural areas.

5.2 Changes to local government grants
A total of R650 million is added to the baselines of direct conditional grant transfers to local government in 2024/25; while reductions of R3.9 billion are proposed to the baselines of direct conditional grants and R7.7 billion to the baselines of indirect grants over the 2024 MTEF. The net effect of the additions and reductions to both direct and indirect conditional grants for the 2024/25 financial year is a R3.3 billion reduction.

5.2.1 Addition to baseline
R650 million is added to the Neighbourhood Development Partnership Grant baseline in 2024/25 as part of the Public Employment Programme.

5.2.2 Reductions to baselines
- A reduction of R524 million is made to the Municipal Infrastructure Grant (MIG), with a total reduction of R1.7 billion over the MTEF.
- A reduction of R35 million is made to the Integrated Urban Development Grant, with a total reduction of R111 million over the MTEF.
- A reduction of R88 million is made to the Urban Settlements Development Grant, with a total reduction of R280 million over the MTEF.
- A reduction of R46 million is made to the Informal Settlements Upgrading Partnership Grant, with a total reduction of R144 million over the MTEF.
- A reduction of R79 million is made to the Public Transport Network Grant, with a total reduction of R238 million over the MTEF.
- A reduction of R6 million is made to the Neighbourhood Development Partnership Grant, with a total reduction of R20 million over the MTEF.
- A reduction of R65 million is made to the Integrated National Electrification Programme (INEP) Municipal Grant, with a total reduction of R204 million over the MTEF.
- A reduction of R81 million is made to the Regional Bulk Infrastructure Grant, with a total reduction of R241 million over the MTEF.
- A reduction of R7 million is made to the Energy Efficiency and Demand-side Grant, with a total reduction of R21 million over the MTEF.
- A reduction of R11 million is made to the Municipal Disaster Recovery Grant, with a total reduction of R35 million over the MTEF.
- A reduction of R2 million is made to the Infrastructure Skills Development Grant, with a total reduction of R6 million over the MTEF.

- A reduction of R12 million is made to the Local Government Financial Management Grant, with a total reduction of R75 million over the MTEF.
- A reduction of R8 million is made to the Programme and Project Preparation Support Grant, with a total reduction of R51 million over the MTEF.
- A reduction of R256 million is made to the EPWP Integrated Grant for Municipalities, with a total reduction of R841 million over the MTEF.
- A reduction of R1.8 billion is made to the indirect Integrated National Electrification Programme (INEP) Eskom Grant, with a total reduction of R5.6 billion over the MTEF.
- A reduction of R11 million is made to the indirect Neighbourhood Development Partnership Grant, with a total reduction of R34 million over the MTEF.
- A reduction of R672 million is made to the indirect Regional Bulk Infrastructure Grant, with a total reduction of R2 billion over the MTEF.
- A reduction of R9 million is made to the indirect Municipal Systems Improvement Grant, with a total reduction of R27 million over the MTEF.

5.2.3 Conversion from direct to indirect grant components

- R58.3 million is converted from the direct component to the indirect component of the Municipal Infrastructure Grant (MIG).
- R587 million is converted from the direct component to the indirect component of the Regional Bulk Infrastructure Grant.

5.2.4 Reprioritisation and shifting of grant funds

- R91 million and R1.4 billion is shifted from the Integrated Urban Development Grant and the MIG, respectively, to the Municipal Disaster Recovery Grant to fund the repair and reconstruction of municipal infrastructure damaged by the floods that occurred between February and March 2023.
- R400 million is shifted and reprioritised from the first two years of the 2024 MTEF period to the outer year in the Public Transport Network Grant.
- R2 billion is reprioritised from the INEP Municipal Grant and shifted to fund the baseline for the new Smart Meters Grant.
- R432 million is reprioritised from the indirect INEP Eskom Grant to fund other priorities in the energy sector.

6. Substantive changes to Bill Clauses

The following substantive changes to Clauses are proposed:

- Section 10: Duties of transferring officer in respect of Schedule 5 or 6 allocations: Sub-clause (5) is revised to include Schedule 6 allocation to make it clear that, like Schedule 5 allocations, the transferring officer of a Schedule 6 allocation must monitor financial and non-financial performance on programmes funded by the allocation.
- Section 12: Duties of receiving officer in respect of Schedule 5 or 7 allocations: Sub-section (6)(a) is updated to include, in the Gazette required in terms of this clause, planned expenditure for each year of the MTEF from the Informal Settlements Upgrading Partnership Grant for Provinces per municipality with level one or level two accreditation of the Grant. In line with this change, subsection 6(c) is updated to include amendments to allocations from the Grant in the Gazette amending allocations published in terms of paragraph (a).
- Section 14: Duties in respect of annual financial statements and annual reports for 2024/25: Subsection (2)(b) is amended to require that the annual reports of national departments responsible for transferring an allocation in Schedule 4, 5 or 7 indicate the systems used to monitor compliance with the Act.
- Section 16: Expenditure in terms of purpose and subject to conditions: Subsection (2) which provides for components within a conditional allocation; as well the shift of funds between such components through publication of a notice in the Gazette is amended to make clear that such shifts come into effect on the date of publication of the notice. Subsection 7(a) is updated to include applicability of the ISUPG: Provinces to the requirements that have to be met following a municipality getting level one or two accreditation of the ISUP or assignment of the function. These include the receiving officer and relevant municipality agreeing on a payment schedule; and submitting it to the National Treasury, through the relevant provincial treasury.
- Section 20: Conversion of allocations: Subsection (1) is updated to include consultation with provincial treasuries when converting an indirect allocation to a direct allocation.

- Section 25: New allocations during financial year and Schedule 7 allocations: Subsection 3(a) which requires that funds from immediate response grants be transferred “within 100 days after the date of the disaster” is amended to make clear that the 100 days count starts from the day of classification of a disaster. Subsection 3(d) is revised to enable the National Disaster Management Centre to stipulate a timeframe within which Schedule 7 allocations must be spent.

7. Change to Schedule

Schedule 6, Part B is updated to include a new Smart Meters Grant that will fund the installation of bi-directional smart metering systems in municipalities.

8. Submissions by stakeholders

8.1 South African Local Government Association (SALGA)

The South African Local Government Association (SALGA) acknowledged government’s efforts to attain fiscal sustainability by narrowing the budget deficit and stabilising debt but noted that the fiscal risks outlined in the Budget had the most detrimental effect on municipalities and their ability to deliver on their constitutional mandate to provide basic services. To this end, SALGA suggested that any fiscal gains must be directed at local government level to improve the financial sustainability of municipalities, particularly those with lower revenue raising potential and high infrastructure backlogs. It recommended that the implementation of the economic recovery strategies and investment in economic infrastructure projects should be inclusive of local economies in municipalities and should be accelerated in the short to medium term.

While the local government allocation of R177 billion was an increase of R4.9 billion from the previous year, SALGA emphasised that this still constituted a share of 9.7 percent from the fiscus and that the local government sphere was not adequately funded, with municipalities only able to cover 60 percent of their expenditure from their own generated revenues. Municipalities experienced further revenue challenges due to the high level of unemployment and poverty, resistance to pay for services, illegal water and electricity connections and theft. SALGA found the net decrease of R384 million in local government conditional grants unacceptable, given the infrastructure backlogs within municipalities. Furthermore, the 2024 MTEF allocations continued to stagnate and decline for local government; ignoring the current realities in local government where growing expenditure outpaced eroding own revenues.

SALGA welcomed the proposed Smart Meter Grant amounting to R2 billion, as it would go a long way in assisting municipalities in metering for water and electricity and revenue collection; but expressed concern that the proposed grant allocation had been reprioritised from the MIG and the INEP Grant. SALGA felt that the funds ought to have originated from additional grants such as the Urban Settlements Development Grant and Integrated Urban Development Grant. SALGA supported the use of National Treasury’s transversal tender (RT29-2024) and the departments also managing the proposed Grant; and further made the following recommendations regarding the Smart Meter Grant:

- National Treasury should ensure end-to-end support on project roll-out.
- Business case readiness assessment of municipalities should be conducted before implementation by National Treasury.
- A steering committee should be established to support and assist in developing a clear framework for how municipalities will access the Grant.

SALGA welcomed the infrastructure delivery reforms to reduce waste and improve the quality of public sector investment; as well as the establishment of an infrastructure and implementation support agency that would cut across all government spheres. SALGA proposed consultation with organised local government on all municipal legislative changes as well as constant impact assessment of legislation to achieve intended outcomes. SALGA welcomed National Treasury’s review of the Local Government Fiscal Framework, particularly the refinements to the equitable share formula (LGES); as well as the proposed review of capacity building systems, to improve the administration and programmes, and rationalising the capacity building grants. It called on National Treasury to expedite the process and to consider the outcomes of SALGA’s study in this regard and on the Committee to take note of and escalate the preliminary findings of SALGA’s review. SALGA further welcomed measures to improve the efficiency of urban utility services through grant reforms for water, however, it was of the view that these must not be limited to metropolitan municipalities but be extended to secondary cities as well. It expressed concern that the horizontal budget allocations to municipalities located on the borders of the country did not consider the fiscal and service delivery constraints of these municipalities due to uncontrolled and illegal immigration.

8.2 Financial and Fiscal Commission (FFC)

The Financial and Fiscal Commission (FFC) indicated that provinces were responsible for the delivery of social goods and services which were not revenue generating, making them highly dependent on fiscal transfers and therefore vulnerable to policy reprioritisation and funding constraints. Decisions regarding wage agreements occurred outside the budgeting process, making provinces susceptible to any adjustments to national transfers which fell short of compensation of employee inflationary adjustments. The FFC noted with concern the trend of increasing compensation of employee expenditure without taking full cognisance of the fiscal framework and intergovernmental fiscal relations system. The FFC noted that the total provincial allocation increased by 3.8 percent over the MTEF; including downward revisions to provincial transfers due to reprioritisations in the context of fiscal consolidation and additions to cover the carry-through cost of implementing the 2023 public service wage agreement.

The FFC highlighted the substantial proposed reductions of R1.5 billion and R1.2 billion to the Human Settlements Development Grant (HSDG) and the Informal Settlements Upgrade (ISUP) Grant; while housing and informal settlement backlogs and the incidence of poverty remained high. It further submitted that the proposed reductions to the District Health Programmes Grant and the indirect NHI Grant may undermine the progress made in district health development and the implementation of the NHI. This was especially concerning when the 2022 mid-year estimates showed an increase in the number of people living with HIV/AIDS. The FFC was further concerned over the material reduction to the Ilima/Letsema Projects Grant, meant to assist previously disadvantaged farmers and contributes to food security. The FFC noted that the R1.1 billion previously added to the ECD Grant for nutrition support and results-based service delivery would be implemented nationally on behalf of provinces. The FFC welcomed the expansion of the National School Nutrition Programme, which was projected to grow nominally by 5.1 percent over the MTEF; even though this increase was below the food inflation rate.

The FFC noted that local government was faced with a myriad of challenges which was evident in the findings of the Auditor-General South Africa (AGSA), and that both the national and provincial spheres needed to assist in strengthening municipal finance and investment to revitalise local development, create more employment and promote welfare through basic services. The FFC further noted with concern the persistent struggles of municipalities due to deficiencies in capacity and their inability to address the obstacles.

The FFC welcomed government's efforts to keep the LGES consistent and to protect the subsidies to the poor. Furthermore, it noted and welcomed a redistribution of funding within the LGES amongst the different categories of municipalities, with smaller, more rural municipalities receiving more funding. The FFC noted that the sector was set to receive R163.2 billion in direct conditional grants and R22.7 billion in indirect grants over the MTEF, with infrastructure grants accounting for 96.3 percent and capacity grants for 3.7 percent. The FFC noted the additional R650 million for the Neighbourhood Development Grant that was geared towards aiding government’s job creation efforts; and recommended that the transferring department complete a comprehensive review to ensure that the functions and funding aligned with the strategic objective of the Grant. The FFC welcomed the R1.95 billion over the MTEF for the procurement of smart meters, as well as the funding of the District Development Model (DDM) where an allocation of R445 million over the MTEF had been prioritised via the Municipal Systems Improvement Grant.

The FFC made the following recommendations:

- Spending on the National School Nutrition Programme needs to be strengthened and improved to ensure alignment with the objectives of the Grant and consideration must be given to linking the increases in the grant to food inflation.
- Once the pilot phase of the ECD nutrition support programme by the national Department of Basic Education is completed, the programme should be implemented by provinces, in line with a previous recommendation that indirect conditional grants be used as a last resort by government.
- The Department of Agriculture, Rural Development and Land Reform and the Department of Health should elaborate on how the reductions to the Ilima/Letsema Project Grant and the District Health Programmes Grant were likely to affect service delivery and plans in place to mitigate the effects thereof.

- A comprehensive review of the Local Government Fiscal Framework was needed to address the systemic challenges facing the sphere.
- Value for money should be actively pursued to ensure the efficient utilisation of conditional grant allocations to local government. This may be done by calculating the cost of municipal outputs, evaluating performance, and comparing results while being mindful of innovation to promote continuous development through the DDM principle.
- Non-financial information should be included in the conditional grant reporting framework for local government, facilitating the monitoring and evaluation of grant performance, thereby enhancing and strengthening oversight over the success of the interventions.

8.3 Parliamentary Budget Office (PBO)
The Parliamentary Budget Office (PBO) explained that national and provincial government had concurrent responsibility for a range of functions such as education, health services, social welfare services, housing, and agriculture. National government was responsible for providing leadership, formulating policy, and providing oversight. Provincial government was mainly responsible for implementation of policy in line with the nationally determined framework. Provincial and local governments received equitable shares and conditional grants from national government to enable them to perform their functions. National government had the largest revenue-raising capacity while provinces had limited capacity whilst having significant spending responsibilities. While municipalities collected revenue through property rates, user charges, tariffs for services and fees, their budgets were under tremendous pressure, and they struggled with programme implementation challenges.

The PBO submitted that government's stated priority was to enhance spending quality and to minimise inefficiencies within all budget items, while ensuring sustainable public finances. However, the reprioritisation of funds had been implemented primarily from equitable share allocations and conditional grants in the community and economic development functions and had been reallocated towards other function groups for compensation of employees.

The PBO provided an overview of the allocations towards the Social Relief of Distress (SRD) Grant and expressed concern that it had not been adjusted for inflation since its introduction in 2020. The PBO submitted that the allocations to the Grant had been inadequate since its inception, while the number of beneficiaries were expected to increase.

The PBO also gave an overview of the allocations to provincial government with emphasis on the changes to conditional grant allocations. With regard to human resources and training, funds would be shifted to the Eastern Cape, Limpopo, Mpumalanga, the Northern Cape and the North West, meaning that other provinces had to cut on the training of health sciences professionals, including specialists, registrars, their supervisors, internships and community service posts. The PBO also expressed concern at the substantial reductions in the Human Settlements Development Grant and the Informal Settlements Upgrading Partnership Grant over the MTEF.

The PBO highlighted that the proposed allocations to local government decreased by R20.6 billion over the MTEF, and that the reprioritisations included reductions of R841 million in the EPWP Grant and R5.6 billion in the INEP Grant; as well as R1.7 billion shifted from the MIG to the Municipal Disaster Recovery Grant.

8.4 Congress of South African Trade Unions (COSATU)
The Congress of South African Trade Unions (COSATU) acknowledged the need to adjust allocations due to under-expenditure and unexpected and urgent new priorities; and further appreciated that a large component of the Bill catered for the 2023/24 public service wage agreement.

COSATU expressed serious concern over the fact that 90 percent of municipalities were in financial distress, with 27 failing to pay salaries and transfer deductions. COSATU further submitted that municipalities were owed R280 billion by residents for electricity provided, while they owed Eskom R57 billion. Moreover, many municipalities were failing to provide basic services or indigent grants and subsidies. COSATU further welcomed the increase in municipal grants, as well as the interventions and capacity-building programmes at 140 municipalities. COSATU was of the view that recapacitating state-owned entities (SOEs) and municipalities was key to the implementation of the R943 billion infrastructure programme. COSATU recommended that Parliament take a more aggressive approach to oversight over municipalities, provinces and SOEs in terms of their implementation of the infrastructure programme and implementation of the Auditor-General's findings and recommendations.

8.5 Equal Education and Equal Education Law Centre
Equal Education (EE) and Equal Education Law Centre (EELC) expressed concern over declining PES allocations and the impact of the public sector wage bill. While welcoming the additional R37.3 billion allocated for public wages, particularly for teachers and healthcare workers, they were concerned that the additional funding may have been reprioritised and diverted from other essential core functions. A further concern was the allocation for salaries. While on the surface, an additional 3.2 percent for compensation of basic education personnel may seem promising, it only covered below-inflation increases for existing personnel and may not cover the cost of hiring of new educators. EE and EELC further noted that hiring freezes remained in place for educator posts, and in some provinces for non-educator posts too. In addition, in the context of an overcrowding crisis, provinces and schools may not hire replacement or substitute teachers when permanent staff were not available. This occurred regardless of the overwhelming evidence that South Africa faced a teacher-shortage, with just under half of all publicly paid teachers set to retire by 2030.

EE and EELC made the following recommendations:

- A timeframe for the PES review should be made public and must include a period of public consultation on proposed models. National Treasury must make a solid commitment to revise the PES formula, including considering the cost of education provisioning in rural areas when calculating the education component; increasing the poverty component; considering school quintile levels; and increasing allocations in line with inflation, growing levels of poverty, and the number of public service users.
- The value of the ECD subsidy should be increased to at least R46 by 2029.
- Adequate funding should be provided for ECD pre-registration support and improvements to infrastructure.
- Nutrition support for children at all ECD programmes, whether registered or unregistered, should be phased in.
- The Education Infrastructure Grant should be increased to at least R19.7 billion to enable provinces to address infrastructure backlogs.
- The School Infrastructure Backlogs Grant should be increased to R6 billion to reach school communities in need of urgent infrastructure provision.
- Estimates of food inflation figures should be revised so that they are more consistent with current figures and the allocation to the National School Nutrition Programme should be benchmarked against these food inflation estimates.

8.6 Rural Health Advocacy Project
The Rural Health Advocacy Project (RHAP) acknowledged the additional provincial allocations, including for the health sector, and welcomed the recent filling of medical officer posts. RHAP emphasised the need for effective coordination of the budget, in order to meet the goal of ensuring that the constitutional obligations were met. RHAP indicated that rural health needs were mainly addressed through primary health care services at local clinics and district hospitals.

RHAP made the following recommendations:

- A joint sitting of the portfolio committees on health, finance and appropriations should be convened to consider how to prioritise budgets to enable the State to meet its constitutional mandates.
- While the additional funding to the PES was welcomed, all provinces should present plans detailing what measures were being implemented to ensure that rural health services were protected from budget cuts.
- The national Department of Health should outline what plans were in place for the implementation of the National Human Resources for Health Strategy.

8.7 TB Accountability Consortium
The TB Accountability Consortium (TBAC) reported that, according to the World Health Organisation 2023 Global TB Report, TB was the second leading cause of death from an infectious disease. In South Africa, around 280 000 people developed TB, of whom 152 000 were people living with HIV. TB services were mainly provided for in provincial budgets and the allocations fell within the District Health Services Grant, along with other primary health care services. TBAC welcomed the increase in

the district health services allocation in the PES from R113.1 billion to R120 billion; as well as the NHI Grant focus on health systems information, which would lead to good governance.

TBAC acknowledged the fiscal constraints and that economic growth had been revised downwards, and further noted what it termed large-scale debt relief for Eskom and the significant fiscal consolidation. TBAC asserted that, unless TB programme budgets were protected, it was unclear how people who required important TB services would be able to access them. It requested that TB funding should be safeguarded. Despite the development of the TB Recovery Plan, there was still a lack of provisioning and implementation at provincial level; and there was a pressing need to improve accountability across all tiers of the health system. This was crucial to ensure an increase in TB treatment rates and a decrease in mortality rates.

8.8 Western Cape Children's Commissioner

The Western Cape Children's Commissioner (WCCC) reiterated issues raised in a previous submission, where it had called for the development of a child-centred and child-friendly governance system; consideration of the proposed state reconfiguration; avoiding cuts to social sector spending; and bolstering child welfare and child protection budgets. The WCCC recommended that future budget communications and formats should be tailored to be more accessible and understandable to children. This would include the use of simplified language, visual aids, and engaging formats to ensure that children could comprehend and engage with budgetary information. Allocations to social sector departments, particularly in the areas of social welfare services for children, should be increased in line with inflation. This was crucial to ensure that essential services and support for children were not compromised due to funding gaps or budget cuts. The WCCC emphasised the importance of considering the debt burden on children and the potential impact of debt service costs on future generations.

8.9 Amandla.Mobi

Amandla,mobi welcomed increases to certain social grants and the extension of the R350 Social Relief of Distress (SRD) Grant to March 2027. They further welcomed the increased taxes on alcohol and tobacco, and the allocations to the PES and salaries of teachers, doctors, and nurses. However, Amandla.mobi was concerned that the budget allocated for social grants each year was undermined by the skyrocketing cost of living and the triple challenges of inequality, poverty, and unemployment. The cost of the household food basket had increased to an average of R5 098.00, which was above the minimum wage of a general worker. As such, Amandla.mobi called for an increase of the SRD Grant to match the food poverty line of R760.00. Moreover, 16 million people qualified for the Grant, but only 8.5 million people were receiving it due to exclusionary regulations. Amandla.mobi further called for the Grant to be expanded into a Basic Income Grant (BIG). Amandla.mobi submitted that 13 million children were receiving the Child Support Grant (CSG) as of October 2023 and that the amount of R530,00 was not sufficient as rising food prices meant that children were at risk of malnutrition and stunting. Amandla.mobi further expressed its disappointment with the replies it had received from National Treasury to its request for information in terms of the Promotion of Access to Information Act (PAIA), arguing that no actual research evidence had been provided. Amandla.mobi asked the Committee to intervene to ensure that National Treasury was not using outdated or non-existent information to make budgeting decisions.

8.10 Budget Justice Coalition

The Budget Justice Coalition (BJC) expressed disappointment that the proposed increase of 2.6 percent in the PES was below inflation; indicating that a 4.7 percent CPI-inflation rate forecasted for the 2024/25 period translated into a 6.9 percent real cut, which would constrain provincial government's available resources to perform its core functions effectively. The BJC added that inflation continued to erode the value of public service allocations, and that this may be more pronounced in female-headed households, especially in provinces with a higher population living in rural communities. This could worsen gender inequality in those provinces.

The BJC submitted that the proposed net reduction of R573 million to the Education Infrastructure Grant (EIG) baseline over the MTEF was not justifiable, given the infrastructure backlogs. The BJC emphasised the importance of increased funding to the EIG, as it could directly contribute to the enhancement of the overall learning environment, the well-being of students and school communities, and developmental prospects in the country. The BJC also expressed concern over provincial under-spending, notably the Eastern Cape and Mpumalanga who, as a result, had forfeited more than R400 million of the EIG despite having massive infrastructure backlogs. The BJC noted that the School Infrastructure Backlogs Grant (SIGB) was the primary source of funding for the Accelerated School Infrastructure Delivery (ASIDI) and Sanitation Appropriate for Education (SAFE) initiatives, which had been instituted to eradicate urgent school infrastructure backlogs, such as pit-latrine toilets, schools built from inappropriate materials, and schools without water or electricity. However, as of August 2023, 3 982 schools still had pit-latrines on-site and 728 were entirely reliant on pit-latrines; and the Department of Basic Education (DBE) estimated that R12.2 billion was needed to fix schools built entirely of inappropriate materials; R10.2 billion was needed to provide sustainable water sources to schools with no water; and R235 million was needed to provide toilets to schools where there were none. The BJC expressed shock that the 2024 Budget proposed to reduce allocations to the SIBG by R1.526 billion over the 2024 MTEF, as the funding was already insufficient to correct even the most urgent infrastructure backlogs. The BJC called for the proposed cuts to be reversed and additional allocations made to the SIBG.

The BJC welcomed the overall 6.3 percent increase in conditional grants allocations to provinces, which was above the 4.7 percent CPI for the period; as these grants funded essential programmes such as school nutrition, infrastructure and HIV/AIDS treatment and education. The BJC was concerned over the lack of public consultation in National Treasury's review of the health and education components of the PES formula; as well as the fact that the poverty (redress) component of the PES only accounted for 3 percent; and there was no accounting for the increased costs of social provisioning in rural areas with historical backlogs.

While noting the increased overall funding for Early Childhood Development (ECD) subsidies and support to ECD programmes to meet infrastructure and other requirements of formal registration and to facilitate wider access to ECD; the BCJ indicated that this increase was tempered by a freezing of the ECD subsidy at R17 per child per day for the sixth consecutive year. This potentially placed approximately 11 500 ECD programmes that relied on subsidies as their main source of income under pressure, as food, electricity and other costs continued to increase. The value of the subsidy, set at R17 for ECD centres and R6 for non-centre-based programmes, had been reduced by 25 percent in real terms since 2019. While acknowledging that the National School Nutrition Programme (NSNP) had been growing steadily since its inception, the BJC noted that the growth in allocations was not pegged to food inflation estimates, which had soared in recent years; and the 5.1 percent average annual increase proposed over the MTEF was not enough to correct for real decreases which may have occurred when food inflation peaked at 14 percent in March of 2023.

The BJC indicated that the significant reductions in real terms to the HIV/AIDS (Life Skills Education) Grant in recent years, exacerbated by the proposed reductions to the Grant's baseline in the 2024 Budget, could impact on the ability of the DBE to provide comprehensive sexual and reproductive health education in schools; while the reduction coincided with trends indicative of reduced condom use among individuals aged between 15-24-years.

The BJC made the following recommendations:

- Allocations to provinces should be aligned with CPI, population growth and the increased number of people relying on public services.
- The value of the ECD subsidy should be increased from R17 to R23 in the October 2024 Adjustments Budget.
- Instead of provinces forfeiting unspent EIG funds, the funds should be reprioritised for training and capacity-building initiatives to build the provincial government's ability to efficiently plan and procure school infrastructure; and consequence management procedures should be instituted against implementing agents who failed to deliver projects.
- Parliament should consider the Financial and Fiscal Commission's (FFC's) recommendation that indirect grants, such as the SIBG, should be considered only as a last resort, while continuing to build capacity in the provinces and municipalities.
- The BJC supported the South African Human Rights Commission's recommendation for the NSNP to be extended to children below the primary school level and for the DBE, in collaboration with the Department of Social Development, to consider extending the NSNP to distribute food to learners on weekends and school holidays.
- Rather than reducing investment in overcoming the HIV epidemic, any cost savings should be redirected towards strengthening the health system's ability to scale up ART coverage and the treatment of TB to allow more people with HIV to live fuller lives and overcome the

epidemic. Investment should be made in robust health information systems; improved treatment literacy; and providing comprehensive support to people on ART to bolster ART retention.
- The FFC and the Parliamentary Budget Office (PBO) should be requested to undertake studies on the Municipal Revenue Model to explore options to alleviate challenges.
- National Treasury should make use of the direct Water Services Operating Subsidy Grant (WSOSG) to ensure that municipalities reduce non-revenue water lost to leaks; as it would go a long way to addressing intermittent water supply in some areas.
- Estimates on municipal bills should be tied to the average actual use by the household to avoid over-inflating the revenue due to municipalities and a municipal billing drive to deal with billing errors should be initiated.

8.11 Section27
While acknowledging that the Bill was characterised by less severe budget cuts to conditional grants meant for public services, Section27 still viewed it as an austere budget that would likely constrain resources available for public facilities like schools and hospitals. It recognised that difficult fiscal choices needed be made in the context of weak economic performance but emphasised that constitutional rights to basic education and healthcare must be protected. Section27 reiterated its previous call for urgent implementation of gender-responsive budgeting (GRB) and called Parliament to compel the National Treasury to provide updates regarding its commitment to leading an inter-departmental steering committee and working with stakeholders to develop a roadmap and tools to facilitate GRB; which regarded as a powerful tool in alleviating gender inequities by resourcing interventions such as the Child Support Grant and HIV/AIDS life skills investment, as young black women were disproportionately represented in HIV statistics.

Section27 advocated for budget allocations towards basic education and healthcare as a mechanism to redress gender inequities; as a well-resourced, adequately staffed public healthcare and school system would redress the socio-economic hardship of women. It further called for greater investment in building provincial capacity to deliver public services and to effect meaningful consequence management for under-utilised budgets. Attracting and retaining excellent public servants in local government and provincial health services was crucial in bolstering the capacity to spend budgets efficiently and ensuring that intended beneficiaries received better quality healthcare services. Section27 submitted that the allocated funding for compensation of employees in the health sector would likely decrease staff headcount, and not even cover inflation-linked wage increases; and that without further urgent interventions, nursing and health professional posts were likely to remain vacant.

While Section27 understood budget cuts due to historical under-spending and infrastructure projects placed on longer-term completion timeframes, it argued that government, including the National Treasury, had a duty to provide proper oversight and ensure transparent, cost-effective, and accountable public procurement. Section27's view was that intervening by reducing the quantum of spend, only reflected a failure by the State to perform this duty.

Section27 expressed alarm over the proposed R1.3 billion cut to the comprehensive HIV/AIDS component of the District Health Programmes Grant per year, over the MTEF, in a country with such a high prevalence and risk of HIV infection. It was also concerned that, a year after the allocation of R784 million to finance the outsourcing of radiation oncology services and surgery backlogs in Gauteng, to ensure prompt access to urgent health care services and fast-track the procurement of outstanding radiation oncology machinery and equipment in that province, the Gauteng Department of Health had failed to appoint a service provider for outsourced radiation oncology services. A further purpose of the ring-fenced funding had been to alleviate the burden on the Gauteng healthcare system and to allow it time to replenish its equipment supply and address its extreme shortage of radiation oncology staff; but these challenges were not being addressed.

Section27 reiterated some of the BJC's recommendations and added the following:
- The trend of disinvesting in the PES should be reversed.
- In order to resolve the oncology crisis in Gauteng, which resulted from challenges with staffing, equipment and backlogs; the remuneration of oncology staff should be made uniform across provinces and provinces should be held accountable for the use of funds allocated to them for the provision of urgent access to health care services.

9. Provincial mandates

The Committee met on 24 April and 30 April 2024, respectively, to consider negotiating and final mandates from provinces.

9.1. Negotiating mandates

9.1.1. Eastern Cape supported the Bill and made comments.
9.1.2. Free State supported the Bill and made comments for consideration.
9.1.3. Gauteng supported the Bill and made recommendations.
9.1.4. KwaZulu-Natal supported the Bill.
9.1.5. Limpopo did not submit a negotiating mandate.
9.1.6. Mpumalanga supported the Bill and made recommendations.
9.1.7. Northern Cape supported the Bill and made recommendations.
9.1.8. North West supported the Bill and made recommendations and proposed amendments.
9.1.9. Western Cape did not support the Bill and provided reasons and recommendations.

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 supported the Bill.
9.2.6. Mpumalanga supported the Bill.
9.2.7. Northern Cape supported the Bill.
9.2.8. North West supported the Bill.
9.2.9. Western Cape did not support the Bill.

10. Findings and Observations

Having deliberated and considered all the submissions made by the above stakeholders on the *Division of Revenue Bill* [B4 - 2024], the Committee made the following findings and observations:

10.1 The Committee welcomed the Bill as tabled by the Minister of Finance with a proposed Budget of R2.1 trillion, which has increased by R101.4 billion or 5 percent from the 2023/24 financial year adjusted allocation, and that is projected to increase to R2.2 trillion in 2025/26 and R2.4 trillion in the 2026/27 financial year, over the 2024 Medium Term Expenditure Framework (MTEF).

10.2 The Committee noted that the national government receives R63.8 billion more than the 2023/24 adjusted allocation; the provincial government receives R32.9 billion more than the 2023/24 adjusted allocation to implement the carry-through cost of the 2023/24 wage agreement in the Health and Education sectors, and that the local government receives R4.6 billion more than the 2023/24 adjusted allocation. However, the Committee remained concerned that the Provincial Equitable Share (PES) is projected to grow at a nominal rate of 4.5 percent, which is below the projected inflation rate of 4.6 percent over the MTEF period.

10.3 Whilst welcoming a total addition of R3.9 billion to the baselines of direct grant transfers to provinces over the MTEF, of which R1.2 billion is earmarked for the 2024/25 financial year, the Committee remained concerned about the service delivery impact of the proposed reductions of R23.9 billion and R2.3 billion to the baselines of both direct and indirect conditional grants over the MTEF period.

10.4 The Committee remained concerned that the 2024 Budget does not fully address the issue of the large number of qualified and unemployed doctors and social workers, while the country is in dire need of their services; and given that a considerable amount of government funds was spent on training them, which could now potentially be regarded as wasteful expenditure.

10.5 The Committee noted that a total amount of R91 million and R1.4 billion was shifted from the Integrated Urban Development Grant (IUDG) and the Municipal Infrastructure Grant (MIG), respectively, to boost the Municipal Disaster Recovery Grant to fund the repair and reconstruction of municipal infrastructure damaged by floods that occurred between February and March 2023. However, it remained concerned that no funding was made available for the North West and the Northern Cape to address damage caused by fires.

10.6 The Committee remained concerned about the under-spending in various conditional grants and that some municipalities were using these funds to pay salaries; and that funds which were earmarked for the Human Settlements Grant and the MIG in 2023/24 were returned unspent to the National Revenue Fund (NRF). The Committee found this unacceptable, given the high levels of inequality, poverty, and unemployment in South Africa.

10.7 The Committee remained concerned about the small percentage of nationally raised revenue being allocated to local government, based on the assumption that most municipalities were able to collect their own revenues, which has proven not to be entirely correct. The Committee strongly believes that local government is at the coalface of service delivery and that most rural and small municipalities continue to struggle to collect revenues due to their geographic location, a culture of non-payment, illegal water and electricity connections, and many other economic challenges.

10.8 Whilst the Committee remained concerned about the slow progress in addressing the legacy debt owed by municipalities to both Eskom and water boards; it also noted that SALGA is working with some municipalities in the debt relief programme to ensure that what they are being charged is a true reflection of what they consumed.

10.9 The Committee remained concerned over the issue of non-revenue water, where many municipalities are losing the majority of water they are paying for, and that this is not only harmful to the potable water supply, but also a waste of water. However; it noted that SALGA is working with the Department of Water and Sanitation and the Development Bank of Southern Africa, where a team of experts, including from the private sector, is put together to assist municipalities to detect water leaks and fix them.

10.10 The Committee noted the R2 billion allocation for the new Smart Meter Grant, which has been reprioritised from the Integrated National Electrification Programme (INEP) Municipal Grant and the MIG, and noted SALGA's proposal that the National Treasury should ensure end-to-end support on project roll-out; that business case readiness assessment of municipalities should be conducted, and that a steering committee should be established to support and assist in developing a clear framework for how municipalities will access the money.

10.11 The Committee agreed with SALGA that part of the challenges for rural and small municipalities is that they struggled to keep their experienced professional staff who continued to move to better-paying opportunities; and that this made it difficult for such municipalities to deal with multi-year planning and budgeting. The Committee further noted that SALGA is engaging National Treasury to not only take money away from these municipalities but to continue to support internal capacity building initiatives.

10.12 The Committee noted the FFC's concern regarding wage agreements occurring outside the budgeting process and making provinces susceptible to any adjustments to national transfers, and the trend of increasing compensation of employees without taking full cognisance of the fiscal framework and intergovernmental fiscal relations system.

10.13 The Committee noted the FFC's proposal that once the pilot phase of the Early Childhood Development (ECD) nutrition support programme by the national Department of Basic Education is concluded, the programme should be implemented by provinces, in line with a previous recommendation, which suggested that indirect conditional grants should always be used as a last resort.

10.14 The Committee agreed with the FFC's proposal that a comprehensive review of the Local Government Fiscal Framework was needed to address the systemic challenges facing the sphere; and that value for money should be actively pursued by everybody to ensure the efficient utilisation of conditional grant allocations to local government.

10.15 The Committee noted the PBO's submission that the allocations towards the Social Relief of Distress (SRD) Grant have never been adjusted for inflation since it was introduced in 2020; and that the allocations to the Grant have been inadequate since its inception, while the number of beneficiaries is expected to rise.

10.16 The Committee remained concerned about municipalities, particularly in the Free State, who are not able to pay staff salaries, and noted that COSATU has made various interventions, such as meeting with mayors, SALGA, and the Minister of Cooperative Governance, and that a long-term and sustainable solution is urgently required.

10.17 The Committee noted COSATU's view that the continuous cutting of budget for compensation of employees will lead to a brain drain in the public service; and that the public wage bill is not out of control but has been decreasing as a percentage of the national budget, from 35 to 31.7 percent.

10.18 The Committee agreed with COSATU that there is a need for a more aggressive approach to oversight over municipalities, provinces and state-owned entities (SOEs), especially when it comes to the implementation of the infrastructure programme as well as the enforcement of the Auditor-General of South Africa's (AGSA's) findings and recommendations.

10.19 The Committee noted Equal Education's assertion that while on the surface, an additional 3.2 percent for compensation of basic education personnel may seem promising, it only covers below-inflation increases for existing personnel and that the department may struggle to cover the cost of hiring new educators, especially given the current shortage of teachers in certain areas.

10.20 The Committee agreed with the Rural Health Advocacy Project's view that there is a need for effective budget coordination within government to ensure that the constitutional obligations are met; and that there is a great need to strengthen primary health care services as rural health needs are mainly addressed through local clinics and district hospitals.

10.21 The Committee noted the TB Accountability Consortium's assertion that TB funding should always be protected, and that despite the TB Recovery Plan, there is still a lack of implementation at provincial level; and that there is a pressing need to improve accountability regarding the implementation of the Plan across the health sector.

10.22 The Committee welcomed the Western Cape Children Commissioner's proposal that allocations to social sector departments, particularly in the areas of social welfare services for children, should be increased in line with inflation, and that this will ensure that support for children is not compromised by funding gaps and budget cuts.

10.23 The Committee noted Amandla.mobi's call for an increase of the SRD Grant to match the food poverty line of R760.00, and the assertion that out of 16 million people who qualify for the Grant only 8.5 million people are accessing it due to exclusionary regulations. The Committee further noted the call for the Grant to be extended to a Basic Income Grant, in line with previous recommendations of the Committee.

10.24 The Committee agreed with the Budget Justice Coalition's (BJC's) concern over provincial under-spending of the Education Infrastructure Grant in the Eastern Cape and Mpumalanga, where more than R400 million was returned to the fiscus, despite massive education infrastructure backlogs. The Committee finds this unacceptable and is of the view that appropriate consequence management should be applied against those responsible.

10.25 The Committee noted with concern the BJC's submission that as of August 2023, 3 982 schools still had pit-latrines on-site and 728 were still reliant on pit-latrines; and that the Department of Basic Education had estimated that R12.2 billion was needed to fix inappropriate structures; R10.2 billion was needed to provide sustainable water sources to schools; and a further R235 million was needed to provide toilets to schools.

10.26 The Committee noted Section27's call for the urgent implementation of gender-responsive budgeting (GRB) and that National Treasury should be compelled to provide updates regarding its commitment to lead the inter-departmental steering committee and work with stakeholders to develop a roadmap and tools to facilitate this. The Committee previously made a recommendation on this matter and will continue to monitor progress.

10.27 The Committee noted with concern Section27's submission that the Gauteng Department of Health has failed to appoint a service provider for outsourced radiation oncology services, despite the ring-fencing of R784 million to deal with this matter and the surgery backlog in the Province.

11. Recommendations

The Select Committee on Appropriations, having considered submissions from various stakeholders on the *Division of Revenue Bill* [B4 - 2024], recommends as follows:

11.1 The Minister of Finance should gazette the *Division of Revenue Bill* [B4 – 2024] once it is signed into law by the President. Further, as a custodian of the South African public finances, the Minister should ensure that the National Treasury continues to assist all other spheres of government, including public entities, to build proper financial management capacity and internal control measures to safeguard these allocations from corrupt elements and ensure that value for money is always achieved; failing which the necessary consequence management must be implemented.

11.2 The National Treasury, together with all departments affected by the budget cuts of R23.9 billion as well as the R2.9 billion from the baseline of both direct and indirect conditional grants over the Medium Term Expenditure Framework (MTEF), should develop a clear plan, within 90 days after the adoption of this Report by the House, to mitigate any negative impact on service delivery. The Committee reiterates its previous stance that any budget cuts to government programmes should be guided by evidence and proper impact assessments to avoid undesirable amendment of departmental annual performance plans, which have been officially adopted by Parliament.

11.3 The Department of Basic Education should develop clear plans, within 60 days after the adoption of this Report by the House, to ensure efficient and improved expenditure on the Early Childhood Development (ECD) Grant to avoid any future budget cuts. Proper interventions at the foundation phase are crucial to improve performance in education, particularly in areas such as reading, writing and numeracy.

11.4 The Department of Basic Education, together with its provincial counterparts, should ensure that measures are developed, within 60 days after the adoption of this Report by the House, to strengthen and improve the spending on the National School Nutrition Programme Grant, to ensure that Grant objectives are aligned and that the Grant allocation is always linked to inflation.

11.5 The Department of Health together with the National Treasury should take steps, within 60 days of the adoption of this Report by the House, to ensure that the issue of unemployed qualified South African doctors and social workers is fully addressed over the Medium Term Expenditure Framework (MTEF), as the country needs their services. The Committee believes that they also need to add value to the public sector, given the considerable amount of resources spent to train them, both locally and in Cuba, each year.

11.6 The Department of Health together with the Gauteng Provincial Department of Health should ensure that measures are developed, within 60 days after the adoption of this Report by the House, to address the challenges around the shortage of radiation oncology services and the replenishment of the correct equipment supply for the health care sector; and that the remuneration of oncology staff is standardised across all provinces.

11.7 The Department of Cooperative Governance together with the National Treasury should accelerate the process of putting measures in place to address under-spending on infrastructure through the Municipal Infrastructure Support Agent (MISA) and the National

Treasury Budgeting Tools to ensure that all funds are used for the intended purpose and value for money is always achieved. Parliament should continue to monitor progress in this regard.

11.8 The National Treasury, together with the Department of Cooperative Governance and the South African Local Government Association (SALGA), should develop a clear plan, within 60 days after the adoption of this Report by the House, to accelerate the process of assisting municipalities to address the legacy debt owed to both Eskom and the water boards, which is currently undermining service delivery in some areas; including the implementation of the debt relief programme to ensure that they are charged the correct rate for basic services and that these are cost-reflective.

11.9 The National Treasury together with the Department of Cooperative Governance should develop clear plans, within 60 days after the adoption of this Report by the House, to ensure the effective implementation of the R2 billion Smart Meter Grant, end-to-end support on project roll-out; business case readiness assessments, and support in developing a clear framework to protect the existing municipal revenue and optimise overall municipal revenue collection.

11.10 The National Treasury, together with the Department of Water and Sanitation, the South African Local Government Association (SALGA) and the Development Bank of Southern Africa (DBSA), should develop clear plans with timeframes, within 60 days of the adoption of this Report by the House, to accelerate the process of addressing non-revenue water caused by water leaks due to aging infrastructure and illegal water connections, through a dedicated and competent technical team. It is the Committee's view that if not addressed, this will continue to reduce potable water supply and eventually affect the expected municipal revenue, and therefore municipal infrastructure maintenance should be prioritised in all aspects.

11.11 The National Treasury should develop measures, within 60 days of the adoption of this Report by the House, to ensure that the amended Section 10 of the Bill, which deals with the duties of the transferring officer in respect of Schedule 5 and 6 allocations, is properly implemented and that both financial and non-financial performance information is effectively monitored and evaluated to achieve value for money and address irregular and wasteful expenditure to improve government spending.

11.12 As previously recommended, the National Treasury and the Department of Social Development should accelerate the process of converting the Social Relief of Distress (SRD) Grant into a Basic Income Grant (BIG) to provide some relief to unemployed South Africans, including those who could use it as start-up capital for self-sufficiency and those that may need to use it to continue seeking employment. Furthermore, these two departments should ensure that the new BIG is inflation-linked to protect the vulnerable and the poor from the high cost of living.

11.13 The National Treasury together with the Department of Cooperative Governance and the South African Local Government Association (SALGA), should ensure that, within 90 days of the adoption of this Report by the House, plans are developed to assist local government to exploit its full revenue raising potential, and to correct the institutional challenges that hamper municipalities in collecting all the revenues due to them; and National Treasury should expedite the implementation of the municipal revenue enhancement programme backed by the debt relief programme.

11.14 The National Treasury together with the Department of Cooperative Governance should develop clear plans, within 60 days of the adoption of this Report by the House, to ensure that the R91 million and R1.4 billion added to the Municipal Disaster Recovery Grant is used for the intended purpose, which is to expedite the repairs and reconstruction of municipal infrastructure damaged by floods; and that funds are made available for provinces such as the North West and the Northern Cape to address the damages caused by fires. Parliament should continue to monitor progress in this regard.

11.15 The National Treasury together with the Department of Cooperative Governance, the Department of Human Settlements and the Department of Basic Education, should take drastic steps, within 60 days of the adoption of this Report by the House, to address the issue of conditional grant funds being surrendered back to the National Revenue Fund (NRF) due to under-spending, particularly in the Eastern Cape and Mpumalanga; and the use of conditional grant funds by some municipalities to pay salaries while service delivery backlogs remain a challenge. The Committee finds this unacceptable, and the appropriate consequence management must be instituted, especially given the high levels of poverty, inequality, and unemployment in South Africa.

11.16 The National Treasury together with the Department of Cooperative Governance and its provincial counterparts and the South African Local Government Association (SALGA) should, within 60 days of the adoption of this Report by the House, enhance the existing plans to assist rural and small municipalities to effectively implement internal capacity building programmes to attract and retain experienced professional staff to address planning and budgeting challenges.

12. Committee decision

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B4 – 2024] (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 Freedom Front Plus (FF+) reserved their positions on the Report.

Report to be considered.