**1. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE *DIVISION OF REVENUE BILL* [B6-2022], DATED 11 MAY 2022**

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B6 – 2022] (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 2022 annual national Budget, including the *Division of Revenue Bill* [B6 – 2022] (the Bill) in the National Assembly on 23 February 2022.

The purpose of the Bill is to provide for –

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

1. **Legislative framework guiding processing of the Bill, 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 24 March 2022, the Bill was passed by the National Assembly and referred to the National Council of Provinces (NCOP) and the Committee for consideration and report as required by Section 9(2) of the Money Bills Act. As per the practise, the Committee invited all provincial portfolio committees on Finance and/or Treasury to be part of the briefing by National Treasury, on 09 March 2022. The same approach was followed on 16 March 2022, when the Committee, in compliance with Section 15 of the Money Bills Act, was briefed by the Parliamentary Budget Office (PBO) and, in compliance with Section 214(2) of the Constitution and Section 10(4) of the Intergovernmental Fiscal Relations Act No.97 of 1997, consulted with the Financial and Fiscal Commission (FFC). Furthermore, during a virtual meeting on 23 March 2022, in compliance with Section 214(2) of the Constitution, the Committee consulted with the South African Local Government Association (Salga).

As per Section 72 (1)(2) of the Constitution and 9(5)(b) of the Money Bills Act, the Committee facilitated public participation while processing the Bill. To this end, advertisements calling for public submissions were published both in the national and regional print media in all eleven official languages from 04 to 11 March 2022, with 18 March 2022 as the closing date. The Committee also invited, via email, all stakeholders who had made submissions in the past. Despite these efforts the Committee received only five written submissions, from the Congress of South African Trade Unions (COSATU), Section27, Rural Health Advocacy Project, Healthy Living Alliance and Budget Justice Coalition. All these stakeholders made oral presentations during the meeting of 23 March 2022.

The NCOP, through its Permanent Delegates – Committee Members - briefed provinces between 19 and 22 April 2022. The Committee received and considered the submitted provincial negotiating mandates on 04 May 2022 and final mandates on 11 May 2022. This served as an indication that provinces had fully participated in the processing of the Bill, as envisaged in Section 214(2) of the Constitution.

1. **Overview of 2021 Medium Term Expenditure Framework (MTEF)**

The central fiscal objectives over the 2022 Medium Term Expenditure Framework (MTEF) period are to -

* Reduce the budget deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth;
* Use a portion of higher-than-anticipated tax revenue to narrow the deficit while increasing non-interest expenditure to support economic growth, job creation and social protection;
* Realise a primary surplus by 2023/24, a year earlier than projected in the 2021 Medium Term Budget Policy Statement; and
* Support economic growth through a range of reforms, including the infrastructure build programme, financed through innovative funding mechanisms and supported by improved technical capabilities.

The 2022 MTEF fiscal outlook is subject to significant risks. These include weakening of global or domestic economic growth, rising global borrowing costs, the possibility of higher public-service wage bill, and the poor financial condition of several major state-owned companies.

1. **The 2022 Division of Revenue allocations**

Table 1 below indicates the overall allocations to national, provincial and local spheres of government for the medium term.

**Table 1: Equitable division of revenue raised nationally**

|  |  |  |  |
| --- | --- | --- | --- |
| **Spheres of Government** | **Column A** | **Column B** | |
| **2022/23** | **Forward Estimates** | |
| **2023/24** | **2024/25** |
| National allocations**1,2** | **R’000**  1 327 188 238  560 756 789  87 311 493 | **R’000**  1 354 771 376  543 149 099  94 086 549 | **R’000**  1 433 054 261  562 018 365  101 486 470 |
| Provincial allocations |
| Local government allocations |
| **Total allocations** | **1 975 256 520** | **1 992 007 024** | **2 096 559 096** |

* *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*
* *The direct charges for the provincial equitable share are netted out*

The above table shows that the provincial share of nationally raised revenue grows by an annual average of 1.4 percent over the medium term, including growth in equitable share transfers of 1 percent and conditional grants of 3.3 percent. However, the municipal share grows by an annual average of 7.9 percent, including equitable share growth of 10.3 percent and conditional grants growth of 5.3 percent. In contrast, the national share contracts by an annual average of 1 percent.

Over the 2022 MTEF period, after budgeting for debt service costs, the contingency reserve and provisional allocations, 48.8 percent of nationally raised funds are allocated to national government, 41.4 percent to provinces and 9.8 percent to local government. Excluding the debt service costs and the contingency reserve, allocated expenditure shared across government amounts to R1.66 trillion in 2022/23, R1.60 trillion in 2023/24 and R1.67 trillion in 2024/25. The 2022 Budget increased allocations for both provincial and local government to assist with urgent spending pressures.

Relative to the 2021 Budget, direct provincial allocations increased by R74.1 billion over the medium term. The majority of this amount consists of R53 billion added to the provincial equitable share (PES) and R5.4 billion added to direct conditional grants following the 2021 MTBPS. Local government allocations increased by a total of R30.7 billion; of which R28.9 billion was for the local government equitable share (LGES) and R1.8 billion for direct conditional grants, over the same period.

**4.1 Provincial equitable share allocation**

The PES is made up of six components: education, health, basic, institutional, poverty and economic activity. From nationally raised revenue, provincial governments receive two forms of allocations: the equitable share and conditional grants. Having taken revisions to the provincial fiscal framework into account, national government transfers to provinces grew from R661 billion in 2021/22 to R682.5 billion in 2022/23, increasing at an annual average of 1.4 percent over the MTEF to R690.2 billion in 2024/25.

A total of R560.8 billion is allocated to the PES and R121.8 billion to conditional grants, which includes an unallocated amount of R471 million for the Provincial Disaster Response Grant and the Provincial Emergency Housing Grant. Due to their limited revenue raising abilities, provinces receive 41.4 percent of nationally raised revenue over the medium term. In addition, provinces receive conditional grants to help them fulfil their mandates, and transfers to provinces account for over 95 percent of their provincial revenue.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Provinces** | **Column A** | | **Column B** | |
| **Equitable share**  **2022/23** | **Conditional Grants**  **2022/23** | **Forward Estimates** | |
| **2023/24** | **2024/25** |
| Eastern Cape  Free State  Gauteng  KwaZulu-Natal  Limpopo  Mpumalanga  Northern Cape  North West  Western Cape  Unallocated | **R’000**  72 230 960  31 107 440  120 041 881  114 509 371  64 055 553  45 961 922  14 942 081  39 540 134  58 367 447 | **R’000**  13 850 000  8 737 000  26 503 000  25 041 000  10 741 000  9 060 000  4 795 000  8 568 000  14 016 000  417 000 | **R’000**  69 779 414  30 108 911  116 263 997  110 785 551  62 073 445  44 595 498  14 434 374  38 297 617  56 810 292 | **R’000**  71 841 946  31 108 873  120 759 712  114 372 560  64 127 292  46 220 404  14 894 537  39 701 790  58 991 251 |
| **Total** | **560 756 789** | **121 782 000** | **543 149 099** | **562 018 365** |

Table 2 shows that total transfers to provinces in 2022/23 amount to R682.5 billion, of which R560.7 billion is the equitable share and R121.7 billion is conditional grants. Included in the conditional grant funding is an unallocated amount of R417 million. Table 2 also shows the forward estimated allocations which are R543.1 billion in 2023/24 and R562 billion in 2024/25.

**4.2 Provincial conditional grants**

Major changes to the provincial conditional grant framework are as follows:

**4.2.1 Additions to grant allocations**

* R3.3 billion will be added to the Human Resources and Training Grant to address funding of the shortfall for medical interns and community service doctors.
* R1 billion will be added in 2022/23 to the COVID-19 component of the District Health Programme Grant to fund the continuation of the COVID-19 vaccine rollout by provinces.
* R2.1 billion will be added over the next two years for repairing of infrastructure damaged by storms and floods in KwaZulu-Natal in 2019 and 2020. This disaster funding will be divided between three grants, as follows:
* Human Settlements Development Grant: R398 million in 2022/23 and R475 million in 2023/24;
* Education Infrastructure Grant: R145 million in 2022/23 and R326 million in 2023/24; and
* Provincial Roads Maintenance Grant: R490 million in 2022/23 and R294 million in 2023/24.
  + 1. **Reprioritisation and reductions of grant allocations**
* To address funding shortfalls for medical internship and community service posts in provinces over the 2022 MTEF period, R745 million is reprioritised to the Human Resources and Training Grant. This funding will be made available through reprioritising R345 million from the Health Facility Revitalisation Grant and R400 million from the National Health Insurance Indirect Grant over the 2022 MTEF period.
* R1.7 billion will be reduced from the Provincial Roads Maintenance Grant in 2022/23. These funds were set aside in the Grant baseline in the 2021 MTEF as an incentive portion allocated to provinces based on their performance. For the 2022/23 financial year, the incentive portion will not be allocated as the process of developing clear and objective criteria is being finalised by the sector.

* + 1. **Correction to the District Health Programme Grant Framework**

The overarching framework for the District Health Programme Grant wrongly indicates the target for the human papillomavirus vaccination programme as Grade 7 school girls. However, the Grant funds are targeted at Grade 5 girls in public and special schools. While the grant framework for the District Health component shows the correct target and the error does not affect allocations per province; it creates confusion and National Treasury requested the Standing Committee on Appropriations to recommend that the conditional grant framework be corrected as part of the gazette that will be issued in terms of section 15 of the Act, once the Bill is enacted.

**4.2.4** **Changes and renaming of grants**

* The HIV, TB, Malaria and Community Outreach Grant is renamed the District Health Programme Grant. Though it will still be used for the same purpose, the number of components within the grant will be reduced to two. The mental health services component and the oncology services component of the previous grant are shifted to the National Health Insurance Grant.
* The Early Childhood Development (ECD) Programme will be officially transferred from the Department of Social Development to the Department of Basic Education from April 2022. As a result, the ECD Grant will also follow the function accordingly.
* The name of the Provincial Disaster Relief Grant is changed to the Provincial Disaster Response Grant, to align the existing processes and actions that are followed by the National Disaster Management Centre in responding to disasters, including the provision of relief where it is needed.
  1. **Local government equitable share allocation**

Over the 2022 MTEF period, R481.3 billion will be transferred directly to local government, this is 9.8 percent of national government’s non-interest expenditure. Allocations to local government will increase by R31.5 billion, relative to the indicative allocations in the 2021 Budget. The LGES, including the Regional Service Council/Joint Service Board (RSC/JSB) Levies Replacement Grant and Special Support for Councillor Remuneration and Ward Committees Grant, will amount to R282.9 billion (R87.3 billion in 2022/23, R94.1 billion in 2023/24 and R101.5 billion in 2024/25).

**4.4 Local government conditional grants**

National government allocates funds to local government through a variety of conditional grants. These grants fall into two main categories: infrastructure and capacity building. The total value of conditional grants directly transferred to local government will increase from R48 billion in 2022/23 to R51 billion in 2023/24 and R52.5 billion in 2024/25; with growth just above inflation, at an average annual rate of 5.3 percent.

**4.4.1 Changes to conditional grants**

Over the 2022 MTEF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the Municipal Infrastructure Grant. It is envisaged that this will improve efficiency in Grant expenditure to develop more and better quality infrastructure. A portion of the Municipal Systems Improvement Grant will be utilised to continue to support the institutionalisation of the District Development Model (DDM). The name of the Municipal Disaster Relief Grant will change to the Municipal Disaster Response Grant.

Other changes include -

* A reduction of R754 million in 2022/23 and R105 million in 2023/24; and an increase of R621 million in 2024/25 in the Public Transport Network Grant to align to the revised implementation plan and cash flow projections for the City of Cape Town’s MyCiti public transport network.
* R1 billion added through the Budget Facility for Infrastructure to the Regional Bulk Infrastructure Grant to continue with the implementation of the Potable Water Security and Remedial Works Project in George Local Municipality.

**4.4.2 Reprioritisations, technical shifts and additional allocations**

* R50 million will be reprioritised from the Integrated National Electrification Programme (Eskom) Grant to finance the operational requirements of the Independent Power Producer Office in 2022/23.
* R8 million in 2022/23 and 2023/24, respectively, will be reprioritised from the Energy Efficiency and Demand Side Management Grant to finance operational requirements within the vote of the Department of Mineral Resources and Energy.
* R10 million will be shifted from the sport component of the Municipal Infrastructure Grant (MIG) to fund a sport project in Polokwane Local Municipality.
* Over the MTEF period, R347 million will be added to the Municipal Disaster Recovery Grant to fund infrastructure recovery in KwaZulu-Natal municipalities.
* Over the MTEF period, R1.7 billion will be added to the Neighbourhood Development Partnership Grant to fund the continuation of city-led public employment programmes as part of the Presidential Employment Initiative.
  + 1. **Amendment to the Local Government Financial Management Grant (FMG) framework**

From 2022/23, the FMG will make provision for the preparation of asset registers. The Municipal Infrastructure Grant, administered by DCoG, has a similar, but broader, provision: funding the development of Asset Management Plans. The submission of audited asset registers is a prerequisite for eligibility for this provision. Where the asset registers need updating, DCoG can provide support. National Treasury added a requirement in the responsibilities of the administrators of the FMG, to ensure that there is no duplication of effort and funding for municipalities targeted for this support. The phrasing of this requirement in the framework has to be amended to highlight the need for alignment between the provisions in both grants. This will be done through improved collaboration between the two administering departments when support is provided in the preparation of asset registers.

1. **Consultation process in terms of Section 214 of the Constitution**
   1. **Financial and Fiscal Commission (FFC)**

The Financial and Fiscal Commission (FFC) submitted that the 2022 Budget proposed a total allocation of R682 billion over the 2022 MTEF to the provincial fiscal framework which represented a slight improvement to the 2021 MTBPS estimate of R658 billion. However, the FFC submitted that notwithstanding the upward adjustment, the 2022 MTEF allocations remained below pre-COVID-19 projections. The FFC recommended that provinces identify selected service delivery indicators and provide assessments of service levels using the 2020 financial year as a point of reference to determine the impact of stagnant allocations on service delivery. These assessments must also incorporate provincial conditional grant delivery targets set out in the 2020 Division of Revenue Act in comparison to the year of assessment. With regard to the R24.6 billion allocated over the 2022 MTEF for provincial education departments to address the shortage of teachers, the FFC cautioned that government should consider the carry-through cost of these teachers going forward.

Regarding local government, the FFC submitted that 2022 would be a challenging year for municipalities as the political landscape had changed drastically after the municipal elections with governance and fiscal challenges which had the potential to impact the delivery of basic services. Furthermore, these changes were taking place against the backdrop of COVID-19, which amplified challenges related to access to basic services, such as water, electricity, and sanitation, with wider fiscal gaps and municipalities (68 percent of 278) in financial distress. The FFC made the following comments with regard to local government:

* The FFC welcomed government's efforts to keep the LGES growth rate above inflation as this would go a long way in offsetting the ever-increasing costs of basic services and enable the delivery of basic services to poor households.
* The FFC welcomed the review of capacity-building systems and infrastructure grants, indicating that such initiatives would enhance municipal performance, move the local government sector forward, and quicken the recovery process.
* The FFC further underscored that the aforementioned review initiatives should be synchronised with the district development model, which seeks to address critical issues of municipal finances and service delivery failures.
* Lastly, the FFC emphasised that municipalities must improve the efficiency of spending with cooperative support from the national and provincial spheres of government through monitoring, reporting and evaluation to fulfil their constitutional mandates.
  1. **South African Local Government Association (Salga)**

The South African Local Government Association (Salga) noted and supported the fiscal consolidation course plotted by government to narrow the budget deficit and submitted that this promised to bear results, notwithstanding the risk factors cited. Salga welcomed the increased adjustment to the local government fiscal framework since this accorded with what the organisation had been lobbying and advocating for at the Budget Forum, Parliament and various other intergovernmental relations fora. Salga submitted that the proposed increase in the allocation to local government over the MTEF cycle would gradually realise the promise contained in the White Paper on Local Government of an equitable share of nationally raised revenue.

With regard to the importance of effective municipal capacity building, given the high number of municipalities currently in financial distress, Salga submitted that it had introduced the following:

* The development of a Good Practice Guide on Municipal Financial Management, with a view to improve the capacity of municipal officials and political leadership. Furthermore, it is in the process of rolling out capacity building initiatives via the Municipal Finance Integrated Councillor Induction Programme (ICIP) as well as capacity building workshops targeting municipal officials.
* In line with the coordination of capacity building initiatives targeted at municipalities, the ICIP is offered in collaboration with National Treasury and provincial treasuries; DCoG, the South African Revenue Service (SARS), and the Local Government Sector Education and Training Authority.
* The development of the accredited Project Preparation and Financing capacity building initiative for major capital projects included piloted municipalities to ensure that the learning outcomes address the deficiencies agreed with municipalities.

In terms of municipal revenue, Salga submitted that the National Conference resolved amongst others to encourage municipalities to strictly implement their credit control policies in an effort to manage escalating debt-owing to municipalities, particularly in collecting debt from customers who are able to pay but not willing as opposed to indigent customers.

Salga made reference to the updated Municipal Borrowing Policy Framework, and stated that it is collaborating with the Development Bank of Southern Africa’s Infrastructure Fund in an effort to facilitate the uptake of long-term borrowing instruments for major capital projects.

Salga welcomed the allocations of R800 million in 2022/23 and R856 million in 2023/24 in respect of the Neighbourhood Development Partnership Grant to continue with city-led employment programmes forming part of the presidential employment initiative. However, it submitted that these allocations must be aligned to the local government functions of the grant. Salga acknowledged the temporary nature of the initiative as a response to the impact of the COVID-19 pandemic on the economy. Furthermore, Salga noted the risk of placing expectations on municipalities to provide this form of employment in the medium to long-term after the funds were no longer available.

Regarding the Municipal Disaster Recovery Grant, Salga highlighted the need to factor in rapid disbursements of the grant allocations to municipalities in cases of disaster. Salga emphasised that the responsiveness in the disbursement of the funds determined whether the grant would have the requisite impact in the event of disasters and it was therefore important to draw from lessons learnt during the COVID-19 hard lock-down. Salga further noted the changes to the Public Transport Network Grant and Integrated Urban Development Grant.

In conclusion, Salga submitted that it supported the Bill and recommended that the upward trajectory in local government allocations from nationally raised revenue be maintained in order to realise the aspirations contained in the White Paper on Local Government of 1998 in respect of subsidising the provision of basic services.

1. **Consultation process in terms of Section 9 (5)(b) of the Money Bills Act**

**6.1 Parliamentary Budget Office (PBO)**

The Parliamentary Budget Office (PBO) gave an overview of the Bill and provided a situational analysis at national, provincial and local government level. The PBO submitted that, while the 2022 Budget increased the local government equitable share by an average annual rate of 10.3 percent, this did not guarantee that the needs of indigent households would be sufficiently met. The PBO stated that national transfers accounted for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities. However, poor rural municipalities received most of their revenue from transfers, while urban municipalities raised the majority of their own revenues.

The PBO made reference to the research work undertaken by the Public Affairs Research Institute which found the following:

* The challenges faced by local government were systemic and were the direct result of the unrealistic assumptions made when designing the funding model in the 1998 White Paper on Local Government.
* The White Paper assumed that local governments could raise over 70 percent of their financing requirements through service charges and also made them responsible for providing affordable services to households.

The PBO made reference to the capital and operating revenue trends at local government, and underscored that poor revenue management and an inability to efficiently raise own revenue was some of the biggest causes of financial distress in municipalities. Furthermore, a number of municipalities failed to deliver services effectively due to poor governance, financial mismanagement and insufficient capacity. The PBO also stated that the key issues in municipal budgets included growing grant dependence, inadequate maintenance expenditure, outstanding customer debt, and under-pricing of services.

The PBO recommended that national departments must monitor information on financial and non-financial performance of programmes partially or fully funded by an allocation made in the Division of Revenue Act. The mandates of the different spheres of government are addressed by the division of revenue considering the demographic, social and economic needs of the environment. The PBO emphasised that relevant up-to-date official statistical data was, however, not always available to inform policy and funding decisions.

1. **Submissions by stakeholders**

As indicated under section 2 above, only five public submissions on the Bill were received despite the Committee’s efforts to facilitate wider public participation.

* 1. **Congress of South African Trade Unions (COSATU)**

COSATU welcomed the extension of the R350 Social Relief of Distress (SRD) Grant, indicating that it needed to be extended and linked to skills training programmes, to help its recipients find jobs. COSATU added that the SRD Grant laid the foundation for a Basic Income Grant, but expressed disappointment that it had not been adjusted for inflation or to match the food poverty level. COSATU supported the R76 billion allocation to the Presidential Employment Stimulus, even though the 2022 allocation had been reduced by R6 billion and the jobs target reduced to 510 000, as it had helped 840 000 people to find work and gain experience and skills thus far. COSATU further expressed the hope that the R35 billion funding for small, medium and micro enterprises would not be suffocated by banks’ lending criteria. COSATU also indicated that there was a need to fast-track pension relief legislation to help financially distressed and indebted workers.

On the public wage bill, COSATU welcomed the Minister’s move towards collective bargaining, indicating that it was critical to settle the 2022 public service negotiations soon and honour the 2020 wage agreement. COSATU emphasised that there was a need for a single wage regime and a collective bargaining process for national, provincial and local government, state-owned entities (SOEs) and all public entities. In addition, the remuneration packages of politicians and managers should be reduced and, in order to eliminate ghost posts and workers, there must be a physical headcount.

With respect to infrastructure, COSATU welcomed the R812 billion 50-year plan, in particular the -

* R126 billion to Transnet;
* R62 billion to PRASA;
* R26 billion to upgrade 900 informal settlements; and
* R471 million infrastructure fund for 30 new schools, 40 schools to receive water and 450 to receive sanitation.

With respect to provincial government allocations, COSATU noted the R8 billion National Health Insurance (NHI) funding over the MTEF, the R3 billion for employing health workers, and the R15.6 billion to fight COVID-19; but expressed concern that 0.2 percent growth over the MTEF would weaken an already overstretched healthcare system. COSATU further welcomed the R24.6 billion to address teacher and learning material shortages and the R12.7 billion to hire over 310 000 teaching assistants.

On local government, COSATU was concerned that 175 out of 259 municipalities were financially distressed, compared to the 86 in 2013. According to COSATU, many of these municipalities failed to provide water, sanitation, electricity and roads or indigent rebates and subsidies; but there were no concrete measures in the 2022 Budget to address this crisis. COSATU also highlighted that there was no road map to move from unsustainable municipalities to the District Development Model.

COSATU concluded by commenting that this Bill, and the 2022 Budget, would not take South Africa out of its current quagmire, but would only worsen the situation.

**7.2 Healthy Living Alliance (HEALA)**

The Healthy Living Alliance (HEALA) proposed that revenue collected through the Health Promotion Levy (HPL) be earmarked specifically for support for the Department of Health’s health promotion programme and other high impact interventions that could contribute to decreasing the burden of hunger, obesity and diet-related non-communicable diseases; stating that its proposals were in line with the holistic intent of the HPL and the furtherance of its goals. HEALA believed that the health and nutrition of women and children needed to be prioritised and therefore suggested the following three areas where the HPL revenue could be utilised:

**7.2.1 Increasing support for School Nutrition Programme (SNP)**

The SNP reportedly benefited over 9 million learners aged four and above every day and was an effective poverty alleviation intervention, reaching some of the most vulnerable children in South Africa. It allowed learners to realise their constitutional rights to basic nutrition and basic education. However, studies had identified numerous shortcomings in the implementation of the programme. While schools argued that they could not meet the SNP's nutrition requirements without sufficient funding, most provincial education departments underspent on their budgets for the SNP implementation. In order to be a more effective programme and meet the nutritional needs of many vulnerable children, HEALA proposed that the SNP be expanded to include breakfast. Evidence showed that breakfast had positive benefits for children’s academic performance and attention in school; and using the funds from the HPL to strengthen and expand this programme could be an effective way to address child hunger.

**7.2.2 Supporting nutrition of children in the critical first 1000 days: Maternity Grant**

HEALA indicated that intervening in a child’s nutrition in the first 1000 days could have lifelong positive results, as stunting arose from chronic malnutrition in pregnancy and the early years of life and impaired the physical and cognitive development of young children. Improving the wellbeing and nutritional status of pregnant women during this critical period, when the growth of the developing foetus was dependent on the nutritional status of the mother, was vital to combat stunting. Extending the Child Support Grant into pregnancy in the form of a maternity support grant would provide poor and vulnerable pregnant women with access to income support, enable healthy nutrition and improve mental health.

**7.2.3 Improving nutrition in households: Basic Income Support**

HEALA reported that cash grants reduced hunger and malnutrition and improved food sufficiency; evidenced by the fact that the R350 Social Relief of Distress (SRD) Grant introduced during the pandemic, had been used primarily to buy food. HEALA believed that the implementation of a Basic Income Support (BIS) in South Africa was feasible and affordable, and would contribute to economic growth and job creation, ensuring many households had improved food security, health and educational outcomes, having a long-term impact on poverty reduction. Although the extension of the SRD Grant was welcomed, HEALA proposed that it be increased to at least the monthly food poverty line of R624, until social assistance for the unemployed was made permanent.

**7.3 Rural Health Advocacy Project (RHAP)**

The Rural Health Advocacy Project (RHAP) submitted that, while there were huge inequalities and inefficiencies in current health spending and resources were constrained, the recovery efforts in the wake of the COVID-19 pandemic presented a vital opportunity to rebuild differently. Rethinking how an adequate healthcare workforce, relevant health information systems and responsive budgeting mechanisms could be coordinated under good governance and values offered the possibility of building resilient health systems, reducing vulnerability to shocks and deepening South Africans’ health and wellbeing. RHAP indicated that realising the right to healthcare access should be understood through achieving universal health coverage (UHC), defined by access, quality and affordability of healthcare for all; and that deepening quality of healthcare for the few could not be prioritised over increasing access to healthcare for the majority. This meant better investment in primary healthcare (PHC) services, and focus on rural areas, which suffered historical and ongoing low service coverage.

It was government’s responsibility to ensure the optimisation of health spending to secure a more equitable access to primary healthcare (PHC), towards universal health coverage (UHC). This required a human rights budgeting framework which more intentionally aligned economic policy with socioeconomic rights. RHAP argued that building resilient rural health systems was inseparable from this aim. Rural-proofing current policies challenged core features of persistent inequalities, while improving access to health for the majority of the under-served or excluded.

After outlining the historic under-funding of the sector as well as the unequal distribution of resources, RHAP commented on the 2022 Budget, as follows:

* In real terms, consolidated healthcare expenditure decreased by 4.3 percent over the medium term, with per person expenditure dropping by 15 percent.
* Changes to the provincial equitable share (PES) formula for more rural-sensitive budgeting is welcomed, but the impact remains dependent on efficiency of spending.
* The lack of new funding specifically for PHC is worrying in light of COVID-19 regressions; and clear plans are required from provinces here.
* The freeze on filling critical and vacant posts is set to continue. While the allocation to fund medical interns and community service doctors is welcomed, the impact on the current unequal distribution is dependent on placement.
* Cuts to infrastructure spending continue, but funding remains for much needed and delayed projects. However, greater oversight is needed to ensure value for money and that provinces’ project lists improve service delivery coverage.
* The reduction over the medium term to the District Health Programme Grant potentially endangers progress with HIV/Aids, but may present an opportunity to review and strengthen implementation.
* It was important to provide clarity on how mental health and oncology services (and funding for this) would be protected under the NHI Direct Grant.
* The NHI Indirect Grant represented key opportunities for strengthening PHC networks, producing impactful NHI demonstration projects, and improving the capacity, relevance and responsiveness of current Health Information Systems.
* Despite some progress, the 2022 Health budget arguably fails to provide an expansive recovery budget or strong strategic clarity on how this recovery can be achieved.

Noting National Treasury’s statement that provinces and municipalities would need to improve efficiency and spend more effectively, RHAP suggested the following to support improved efficiency in provincial spending:

* A one-size-fits-all model cannot be imposed on provinces, given contextual factors.
* Inefficiencies are not necessarily resolved at provincial level without support. Provincial allocations often become based on historical expenditure trends as opposed to clear links to plans, targets, or changes in programme performance.
* Improving efficiency is a long-term task, yet immediate steps are required in the context of imperative recovery and preventing regression.
* While existing provincial autonomy should be upheld, there is room for the potential review and enhancement of provincial annual performance plans beyond existing accountability mechanisms.

In conclusion, RHAP recommended that a joint committee be set up temporarily to review and interrogate provincial departments’ budgetary decisions for 2022/23, in accordance with the most optimally aligning allocation of available resources to meeting existing needs. This committee should be jointly comprised of the Department of Health, the Portfolio Committee on Health, the National Council of Provinces, and civil society actors in the health sector. Appropriate representatives from provincial departments should engage with this committee to present on and explain how their allocations, given by their annual performance plan, were intentionally prioritising efficient coverage for the most vulnerable.

**7.4 Section27**

Section27 submitted that significant real term reductions in the provincial equitable share (PES) and certain conditional grants would impact both the availability and the quality of public health and education and that the government had failed to justify these measures or take adequate steps to mitigate their impact on human rights. It asked Parliament to consider whether this Bill would strengthen the fiscal capacity and efficiency of provinces and municipalities, enabling them to provide basic services and perform the functions allocated to them. Section27 further insisted that cuts to social spending must be based on transparent and participatory human rights impact assessments that demonstrated that the reductions would not increase inequality and undermine people's right of access to quality basic education and healthcare services.

**7.4.1 Gender-responsive budgeting**

Section27 submitted that conditional grants were not allocated in a gender-responsive manner, despite an FFC recommendation that the budget should address gender inequality through gender budgeting in the public sector. In addition, funding for the Department of Women, Children and People with Disabilities had been reduced by an annual average of 11.9 percent over the MTEF. Section27 requested that the NCOP monitor whether this would impact on provinces, and further made the following recommendations:

* Parliament should request a copy of the government’s plans for the medium term that reflects steps in advancing gender-responsive budgeting.
* There should be engagement between government, Parliament and the public on what gender-responsive budgeting should look like in the South African context.
* Parliament must insist on adequate resource allocation to gender empowerment programmes and for provinces in particular to implement the National Strategic Plan on Gender-Based Violence and Femicide to address the scourge of gender-based violence.

**7.4.2 Basic Education conditional grants**

While welcoming the increase of 4.5 percent over the MTEF to the Education Infrastructure Grant (EIG), Section27 was concerned over nominal cuts in the current year to provinces with a pre-existing infrastructure crisis, namely the Eastern Cape, North West and Limpopo. It was further concerned over the below-inflation increase of 0.3 percent in the School Infrastructure Backlogs Grant (SIBG) in the current year, followed by a 13.5 percent reduction the following year. The nominal cut to the EIG in the outer year of the MTEF was not supplemented by SIBG allocations. Section27 requested clarity on these reductions in light of the exiting backlogs. Section27 further expressed concern over the 1.7 percent growth in the Early Childhood Development (ECD) Grant which, when considering inflation, was expected to decrease by 2.8 percent in real terms until 2024/2025. Furthermore, the increase in the National School Nutrition Programme (NSNP) Grant did not take into account the rising cost of nutritious meals, as food price inflation remained higher than ordinary inflation. Section27 proposed that the NSNP Grant be aligned with the food price inflation rate.

**7.4.3 Health conditional grants**

Section27 was concerned that the allocation to the District Health Programmes Grant (DHPG) was expected to fall by about 4.2 percent on average in real terms each year for the next three years; while provinces faced disrupted access to prevention, care and testing for HIV/AIDS during the pandemic, resulting in a spike in infections, while National Treasury had acknowledged that the target of 5.7 million people living with HIV remaining on treatment by the end of 2022 was unlikely to be achieved. Noting the target to vaccinate 70 percent of the population against COVID-19 by March 2023 and the R10.1 billion allocated to the vaccine roll-out and R2.3 billion earmarked for purchasing additional vaccines in future, Section27 recommended that vaccine sites be made more accessible through extended opening hours and increased mobile units; a financial incentive be considered to offset travel costs and make the process of vaccination easier; and public awareness and branding campaigns about the location of vaccine sites be undertaken. Section27 was further concerned over cuts in the Health Facility Revitalisation Grant to all the provinces in 2022/2023, except the Northern Cape and the Western Cape; while increases to these two provinces were not aligned with inflation, resulting in real cuts over the medium term; noting that budget allocations may not meet the infrastructure backlogs in the provinces, which predated the COVID-19 pandemic.

**7.5. Budget Justice Coalition**

The Budget Justice Coalition (BJC) argued that severe real term funding cuts to non-interest expenditure, and specifically to the provincial equitable share and conditional grants, were not justified, and disproportionately impacted on the most marginalised and poor, thereby increasing inequality.

**7.5.1 Education**

The BJC submitted that the budget did not reflect the crisis in the basic education sector, with a lack of consistent inflation-related growth. While the consolidated expenditure in basic education for 2022 increased by almost R20 billion from what had been projected in the 2021 Medium Term Budget Policy Statement and the spending cuts made during the COVID-19 pandemic were not continued, the annual average funding increase of only 2.0 percent was less than half of what was required to keep up with CPI inflation of 4.5 percent. The Education Infrastructure Grant (EIG) and the School Infrastructure Backlogs Grant (SIGB) was reduced by R1.7 billion, with an additional R4.4 billion being reprioritised within infrastructure budgets for COVID-19 related measures. This had a deep impact on the provision of school infrastructure and the BJC was pleased that these cuts were not continued in 2022/2023 and over the medium term, as allocations to the EIG and SIBG totaled about R47.4 billion over the MTEF.While more than R26 billion had been allocated to the National School Nutrition Programme (NSNP) Grant over the next three years, the allocation was just keeping up with inflation and had not been increased to accommodate escalating food needs following the pandemic.

**7.5.2 Health**

The BJC submission and recommendation on Health corresponded with that of the Rural Health Advocacy Project as captured under 7.3 above.

**7.5.3 Social Development**

While noting the extension of the Social Relief of Distress (SRD) Grant to March 2023, the BJC urged that funds should be allocated for the Grant to be increased to the food poverty line of R624 and for the Department of Social Development to address the administrative challenges of the Grant. In addition, a permanent Basic Income Support Programme should be implemented for those aged 18 to 59 years with little to no income, before the SRD Grant was terminated. The BJC submitted that the online platform to access the SRD Grant was exclusionary and would further entrench economic and racial inequality; as there were beneficiaries and recipients who did not have access to digital technology including devices, connectivity or data. According to the BJC, it was crucial that the budget be provided to facilitate a hybrid application system. The BJC was further concerned that only R9.2 billion per year for the next two years had been allocated to the Presidential Employment Stimulus Programme, representing a decline from the R12.9 billion allocated for the first phase.

The BJC was concerned over the below-inflation increase in the Child Support Grant (CSG), from R460 to R480 per month, indicating that the fact that the CSG was already substantially below the food poverty line of R624 per month, meant that child malnutrition and stunting would persist and even rise, with long term consequences for society and the economy.

**7.5.4 Local government**

The BJC submitted that local government received a relatively low 9 percent of nationally raised revenue, of which 58 percent was in respect of the equitable share (LGES). The biggest component of the LGES was the funding of the package of free basic services (FBS), with an amount of R63.9 billion being allocated to fund FBS for 10.9 million households. This critical part of the overall social wage was intended to ensure that all households could access a minimum amount of basic services, and amounted to R488.42 per month per household. However, over the past five years the number of households that actually received the package of FBS had declined, while funding in the national budget had increased. Currently, fewer than 3 million households received the full package of FBS from their local municipality; representing less than 30 percent of what was funded in the Budget. The BJC reported that approximately 4.3 million South African households lived below the food poverty line; with at least 1.3 million of those not receiving the FBS, despite the funds being made available. The result was that households must divert expenditure from food to pay for electricity and water; impacting negatively on household food security in general, and child nutritional status in particular. Another 5 million households that lived below the upper-bound poverty line were reportedly not receiving the FBS from their local municipality. The result was that the social support component of the budget was actually much lower than the figures suggested. Despite the requirement in the Bill that municipalities who chose to provide fewer households with FBS than they were funded for through the LGES, should clearly set out in their budget documentation why they had made this choice and how they had consulted with the community during the budget process, no municipality had to date provided this information. The BJC argued that Parliament had an oversight responsibility to ensure that the package of FBS was actually implemented.

**8. Provincial mandates**

The Committee met on 04 and 11 May 2022, respectively, to consider negotiating and final mandates from provinces.

**8.1. Negotiating mandates**

8.1.1. Eastern Cape supported the Bill and made comments.

8.1.2. Free State supported the Bill and raised issues for consideration.

8.1.3. Gauteng supported the Bill and made recommendations.

8.1.4. KwaZulu-Natal supported the Bill.

8.1.5. Limpopo supported the Bill.

8.1.6. Mpumalanga supported the Bill and made recommendations.

8.1.7. Northern Cape supported the Bill and raised issues for consideration.

8.1.8. North West supported the Bill and made recommendations.

8.1.9. Western Cape did not support the Bill.

**8.2. Final mandates**

8.2.1. Eastern Cape supported the Bill.

8.2.2. Free State supported the Bill.

8.2.3. Gauteng submitted a document that did not comply with the Mandating Procedures of Provinces Act (No 52 of 2008), and could therefore not be considered.

8.2.4. KwaZulu-Natal supported the Bill.

8.2.5. Limpopo supported the Bill.

8.2.6. Mpumalanga supported the Bill.

8.2.7. Northern Cape supported the Bill.

8.2.8. North West supported the Bill.

8.2.9. Western Cape did not support the Bill.

**9. Observations and findings**

* 1. The Committee welcomes the Bill, which allocates 49.7 percent to the national sphere, 41.2 percent to provinces, and 9.1 percent to local government. Although the Committee notes some increases to rural provinces and municipalities, it remains concerned that the overall allocation to the local government sphere is still inadequate, given that the input costs for providing basic services continue to rise. This is further worsened by municipal revenue constraints caused by COVID-19, the increasing number of municipalities facing financial distress (68 percent of 278 municipalities), and the adoption of unfunded mandates.

* 1. The Committee notes the proposed spending plans, which include an allocation of R3.33 trillion, or 59.4 percent of total non-interest spending, for the social wage. It further notes that the main budget non-interest spending has a net increase of R282.3 billion over the 2022 MTEF period compared to the 2021 Budget, which is supported by higher than anticipated revenue collections.
  2. The Committee notes the engagements taking place between Salga and the Executive to resolve the issues of municipal debt to Eskom and government departments’ debt owed to municipalities. The Committee is concerned with the slow progress in resolving these matters, as their negative impact on Eskom and municipal finances is bound to affect service delivery.
  3. The Committee notes Salga’s continuous efforts to empower municipalities through skills development workshops and other capacity building initiatives to ensure that funds are spent effectively and to address spending challenges on infrastructure grants in some municipalities and non-compliance with certain conditional grant frameworks, such as 100 percent expenditure being reported without approved operational plans being in place.
  4. The Committee notes Salga’s relationship with traditional leadership structures and the fact that chairpersons of traditional houses form part of Salga’s Provincial Executive Committees (PECs) and sit in municipal councils of several municipalities, particularly in the district municipalities, with full participation. The Committee further notes that Salga is not involved in the budgetary process of traditional councils, but does assist with fundraising for traditional activities and other in-kind initiatives.
  5. The Committee believes that the user pays principle is a critical mechanism to assist municipalities and other public entities to generate revenues to be self-sufficient and therefore, it remains concerned about the fact that the local government equitable share (LGES), which is meant to fund free basic services for the poor (indigent), is in fact subsidising the delivery of services across the board, including to those who can afford to pay. This further defeats the objectives of the cross-subsidisation principle, which aims to assist the most vulnerable and needy communities.
  6. Whilst the Committee notes Salga’s undertaking to continue implementing its National Executive Council (NEC) resolution relating to accountability and consequence management for wrongdoing at municipalities, it remains concerned that Salga does not have legislative powers to sanction individual councillors to fast-track such interventions, since its mandate only includes lobbying; advocacy; and capacity building for its members.
  7. The Committee remains concerned about the increasing trend where direct conditional grants are converted into indirect grants for both the provincial and local government spheres, so that their allocations seem to have increased, while the funds remain with the national departments. The Committee is of the view that national departments should only intervene where absolutely necessary, notwithstanding the fact that some departments might also have their own capacity challenges, which may continue to impact on indirect grant spending.
  8. The Committee shares the Financial and Fiscal Commission’s (FFC’s) concern over the fact that infrastructure grant allocations, specifically for local government, decline over the medium term period; especially in light of the need for an infrastructure-led economic recovery.
  9. The Committee shares COSATU’s concerns regarding the reduction over the medium term in the allocation for the Land Reform Programme; the below-inflation increase in the Foster Care Grant; and the fact that some funds are lost due to corruption and wasteful and fruitless expenditure.
  10. Whilst the Committee notes the proposal by the Rural Health Advocacy Project (RHAP) that a joint committee be established to review and interrogate provincial health departments’ budgetary decisions, it remains concerned about the legal standing and terms of references for such a committee as well as the possible duplication of roles and responsibilities already performed by parliamentary oversight committees in the health sector, both in the national and provincial legislatures.
  11. Whilst the Committee welcomes the R21.1 billion earmarked largely to support the ongoing response to the COVID-19 pandemic as well as the appointment of medical interns and community service doctors, it remains concerned about some departments, particularly the Department of Health, which will be surrendering back to the National Revenue Fund (NRF) allocations it received for the Presidential Employment Initiative, when South Africa reportedly reached record unemployment levels in the third quarter of 2021.
  12. The Committee welcomes the R32.6 billion earmarked over the medium term for the Department of Higher Education and Training to fund any shortfall in funding for student bursaries. Noting the levels of reported under-expenditure in some conditional grants, including the School Infrastructure Backlogs Grant, the Committee is concerned about the incorporation of this Grant into the Education Infrastructure Grant. The Committee is of the view that this could potentially remove the focus from school infrastructure backlogs, including the eradication of pit latrines and inappropriate structures.
  13. The Committee welcomes the fact that social expenditure is maintained in the 2022 Budget, as well as the extension of the Social Relief of Distress (SRD) Grant until March 2023; and further noted that a process of reviewing the entire social grant system is underway.
  14. The Committee notes the R3.7 billion baseline allocated to provinces for the Early Childhood Development (ECD) Programme including the function shift from Social Development to Basic Education as a step in the right direction. The Committee is of the view that, for government to improve the quality of education, more investment is required at the level of ECD as this will yield numerous positive spill-overs such as increased success in the later schooling years.
  15. Whilst the Committee welcomes the additional R7.4 billion earmarked to hire additional personnel in security cluster departments to intensify the fight against crime and corruption, it remains concerned about the fact that the increasing debt servicing cost is crowding out many other spending functions, including the South African National Defence Force (SANDF) budget. At the same time, there has been increasing reliance on the SANDF, due to international, regional and domestic conflicts. Insufficient funding for the cluster continues to undermine the maintenance of important assets including vehicles and buildings.
  16. Whilst the Committee notes the R20.5 billion earmarked for cost implications of the 2021 public service wage agreement, with no further provision made over the medium term for increased compensation above this level, it remains concerned about the higher public sector wage bill as a percentage of spending and Gross Domestic Product (GDP). The Committee further notes that the National Treasury was still in the process of engaging with the labour unions at the end of March 2022 to identify challenges and come up with solutions with regards to this matter.
  17. The Committee remains concerned about the lack of interventions or action taken against government officials or departments who continue to undermine financial management regulations by not paying service providers within 30 days, as required by Section 38 of the Public Finance Management Act of 1999. The Committee is of the view that not paying service providers on time does not assist government to implement its economic recovery plan, as announced by the President, successfully.
  18. Whilst acknowledging the challenges relating to the Public Procurement Bill, the Committee remains concerned about the slow pace of resolving matters related to this important piece of legislation to ensure it is tabled in Parliament soonest. The Committee is of the view that the Bill could help to further streamline public procurement processes and achieve much needed economic empowerment for previously disadvantaged groups, including women, youth and people with disabilities.
  19. The Committee agrees with Section27 that conditional grants are not allocated in a gender-responsive manner, despite an FFC recommendation that budgets should address gender inequality through gender budgeting in the public sector. It also notes the observation that funding for the Department of Women, Children and People with Disabilities has been reduced by an annual average of 11.9 percent over the MTEF.
  20. The Committee notes the recommendation by the Budget Justice Coalition (BJC) that the Social Relief of Distress (SRD) Grant be increased to the food poverty line of R624 and that the Department of Social Development address the administrative challenges of the Grant.
  21. While welcoming the R15 billion allocation for loan guarantees for small businesses to bounce back, the Committee remains concerned over the accessibility of these funds, in light of the serious challenges previously experienced by businesses who needed loans; and over whether government has taken enough strides to ensure that better criteria are used to improve take-up of the scheme. The Committee further welcomes the involvement of development finance institutions (DFIs) in the implementation, given that the scheme is still experimental in nature.
  22. The Committee notes, from the issues raised by provinces in the negotiating mandates, that information does not seem to be flowing from Members of the Executive, who engage with National Treasury at the Budget Council and Budget Forum meetings, to the oversight committees of provincial legislatures.

**10. Recommendations**

* 1. The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs and provincial treasuries and cooperative governance departments, should ensure that any increased allocation to the provincial and local government spheres, as well as some national departments, is accompanied by the requisite capacity and support to ensure proper planning as well as effective implementation of grant funded projects. Furthermore, they need to ensure that all pillars of accountability, monitoring and oversight are strengthened and consequence management is implemented immediately where necessary.
  2. The South African Local Government Association (Salga) should expedite its engagement with the Executive to resolve the issues of municipalities owing Eskom and some provincial and national departments owing municipalities. The Committee believes that these issues are long overdue and concrete steps ought to be taken to resolve it as a matter of urgency. The Committee believes that this will partly address some revenue challenges for both Eskom and municipalities. A progress report should be tabled in Parliament in the next budget cycle.
  3. Salga should intensify its programmes to empower municipalities through skills development workshops and other capacity building interventions to ensure that allocated funds are spent efficiently and effectively to address the lack of spending on infrastructure grants at municipal level, including the non-compliance with grant frameworks. Parliament will continue to monitor progress in this regard.

* 1. Salga should ensure that it interacts with all recognised traditional leadership from rural villages the same way as those leaders of local government located in urban areas, to address the large backlog of under-development and infrastructure challenges in such areas.
  2. The Committee is of the view that national and provincial government should intervene in municipalities only in instances where local government is not capable of performing and that this should always happen in consultation with that particular municipality or province. Moreover, the Committee believes that it is important to improve and strengthen capacity and to support municipalities and provinces with customised interventions instead of using a one-size-fits-all approach. However, where the national or provincial government finds it necessary, such intervention should be decisive in order to ensure effective and prompt rectification; and consequence management should be implemented where necessary.
  3. The Committee believes that, in order for Salga to succeed in implementing its NEC resolutions focusing on extracting accountability and ensuring consequence management in municipalities, it should work with various law enforcement agencies whose mandates are legislated to enforce accountability, given that its role only includes lobbying, advocacy and skills development.
  4. The National Treasury and provincial treasuries should ensure that funds lost due to corruption, maladministration and wasteful expenditure are recovered and paid back to the State to improve service delivery. The Committee is of the view that provincial departments as well as municipalities need to ensure that Audit Improvement Plans, which are part of their approved annual plans, are implemented to address wastage of resources and many other issues raised by the Auditor-General of South Africa and other bodies.
  5. The Minister of Health should ensure that conditional grants are utilised to strengthen service delivery and hospital infrastructure. Moreover, there is an urgent need to address the current situation where government is unable to employ doctors and nurses due to a lack of funds. The Committee is of the view that the post-COVID-19 recovery programme should include the strengthening of primary health care through utilising community health care workers. The Committee believes that the state of health infrastructure maintenance in some provinces is worrisome and requires urgent attention.
  6. The review of the provincial equitable share (PES) formula should be expedited, the Committee is of the view that certain provinces such as Northern Cape, Gauteng and KwaZulu-Natal, should continue to be considered for a bigger share to address the challenges posed by their rurality, vastness and population growth as a result of people moving for jobs and educational opportunities. The Committee believes that the formula should reflect such factors.
  7. The National Treasury should expedite the process towards tabling the Public Procurement Bill in Parliament. The Committee believes that the Bill should assist government to promote local procurement initiatives and stimulate domestic manufacturing to boost the economy as well as ensure the participation of previously disadvantaged groups such as women, youth and people with disabilities. This Bill should further assist government to fast-track the implementation of the economic recovery plan as announced by the President.
  8. With regards to the public sector wage bill as the largest cost driver in the current payments budget category, the Committee recommends that National Treasury and the Department of Public Service and Administration expedite the process of engaging with labour unions to amicably address this matter. The Committee believes that the review process of departmental organograms and vacant posts is a critical exercise that might also assist. The National Treasury should report on this matter in the next budget cycle.
  9. The National Treasury and the Department of Health should ensure that the R21.1 billion earmarked largely to support the ongoing response to the COVID-19 pandemic as well as the appointment of medical interns and community service doctors, is utilised according to approved performance plans. The Department of Health needs to ensure that appropriate and effective internal control systems are put in place to make sure that funds earmarked for the Presidential Employment Initiative are not returned to the fiscus given the levels of unemployment in South Africa.
  10. The Department of Higher Education and Training should ensure that the R32.6 billion earmarked to fund the shortfall in student bursaries is transferred to the National Student Financial Aid Scheme (NSFAS) on time to assist the needy beneficiaries.
  11. The Committee is of the view that, before the School Infrastructure Backlogs Grant (SIBG) is incorporated into the Education Infrastructure Grant; the Department of Basic Education should table a status report in Parliament on school infrastructure backlogs and pit latrines around the country, particularly in the Eastern Cape where the backlog of inappropriate structures amounted to more than 500 in 2009. The Department should also table a clear plan in Parliament on how it intends incorporating the SIBG without compromising its fundamental principles and objectives.
  12. The Department of Basic Education, National Treasury and provincial treasuries should ensure that provincial education departments put proper systems in place to ensure effective administration of the R3.7 billion for the Early Childhood Development (ECD) Programme, including a smooth function shift. The Committee is of the view that, for government to improve the quality of education, still more investment is needed at the level of ECD.

* 1. Whilst welcoming the extension of the Social Relief of Distress Grant, the Committee is of the view that there is an urgent need for the Department of Social Development to further address the administrative challenges affecting the distribution of the Grant to the correct beneficiaries. These include unnecessary delays in processing beneficiary documents, long queues and corrupt elements taking advantage of the vulnerable and poor.
  2. The Committee believes that budget is a critical instrument for government to achieve both transformation and inclusive economic growth. Therefore, the Committee reiterates its previous recommendation around gender budgeting that the Minister of Finance, together with the Minister of Women in the Presidency need to ensure that adequate resources are allocated for women, youth and people with disabilities. Furthermore, they need to ensure that enough resources are earmarked and transferred to provinces for the implementation of the National Strategic Plan on Gender-Based Violence and Femicide; to help address the scourge of gender-based violence and to ensure proper mainstreaming of gender issues including those of the LGBTQIA+ community.
  3. In line with the proposed amendment to the Local Government Financial Management Grant (FMG), the Committee recommends that National Treasury correct as part of the gazette, the Grant’s framework that will be issued in terms of Section 15 of the Division of Revenue Act, once this Bill has been enacted.
  4. The Committee believes that there is a need to strengthen and enhance the intergovernmental cooperation with regard to information flow between the executive authority and national and provincial legislatures and their portfolio committees to avoid the information gap regarding policy decisions. Engagements between the executive and legislatures and their portfolio committees regarding policy decisions would foster transparency and accountability between the two arms of State.

10.20 The Committee believes that, in order to avoid an undue share of conditional grant funds being consumed in salaries instead of service delivery, National Treasury should give serious consideration to ring-fencing the amount that can be used for salaries and to capturing this information in a separate column in the Bill. The Committee will engage further with National Treasury on the desirability and feasibility of this.

**11. Committee decision**

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B6 – 2022] (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.

Report to be considered.