Report of the Standing Committee on Appropriations on the Division of Revenue Bill [B4–2024] (National Assembly – Section 76), Dated 20 March 2024

The Standing Committee on Appropriations (the Committee), having considered the *Division of Revenue Bill [B4-2024]* (National Assembly), referred to it on 13 March 2024 and tagged as a section 76 Bill, reports as follows:

1. Introduction

Section 214(1) of the Constitution of 1996 (the Constitution) requires that a Division of Revenue Act (DoRA) determines the equitable division of nationally raised revenue among the three spheres of government (National, Provincial and Local). This is intended to foster transparency in the sharing of nationally raised revenue and ensure smooth intergovernmental relations. The Intergovernmental Fiscal Relations Act, No. 97 of 1997 prescribes the process for the determination of an equitable sharing and allocation of revenue raised nationally. Sections 9 and 10(4) of this Act set out the consultation process to be followed with the Financial and Fiscal Commission, including the process of considering recommendations made regarding the equitable division of nationally raised revenue.

In giving effect to section 73 of the Constitution, the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Money Bills Act) as amended by the Money Bills Amendment Procedure and Related Matters Amendment Act No.13 of 2018 was enacted. In line with Section 7(1&3) of the Money Bills Act and section 27 of the Public Finance Management Act No. 1 of 1999 (PFMA), the Minister of Finance tabled the national budget including the 2024 Division of the Revenue Bill (the Bill) on 21 February 2024. The Bill was then referred to the Committee on 13 March 2024 in line with Section 9(1) of the Money Bills Act.

The Committee received briefings from National Treasury and the Parliamentary Budget Office. The Committee also had engagements with the Financial and Fiscal Commission as required by Section 9(7)(a) of the Money Bills Act. Furthermore, briefings were received from the South African Local Government Association, as required by Section 214(2) of the Constitution of the Republic.

In line with section 9(5)(b) of the Money Bills Act, the Committee is required to hold public hearings on the Division of Revenue Bill. To this end, adverts calling for public submissions on the Bill were published in regional and local print media from 23 February to 5 March 2024. Public hearings on the Bill were held via the Zoom virtual meeting platform on 13 March 2024 with the following parties who had made submissions:

- Equal Education;
- Western Cape Childrens Commissioner;
- Amandla.mobi;
- Budget Justice Coalition;
- Section27;
- Rural Health Advocacy Project;
- TB Accountability Consortium; and
- Congress of South African Trade Unions.

2. Overview of the 2024 Division of Revenue Bill

National government transfers more than half of nationally raised revenues to the nine provinces and 257 municipalities, empowering them to fulfil their mandated functions and serve their communities. Provinces oversee essential services, such as basic education, healthcare, roads, human settlements, social development and agriculture. Meanwhile, municipal services include water, sanitation, electricity reticulation, roads and community services. Additional government revenues and a marginal decline in debt-service costs allow the 2024 Budget to reverse some of the reductions that were introduced in the 2023 MTBPS. Nevertheless, as fiscal consolidation measures remain, provinces and municipalities continue to experience smaller conditional grant transfers.

Transfers to both provinces and municipalities will differ somewhat from the 2023 Budget, due to a combination of these consolidation measures and the impact of the 2023 public-service wage agreement. While equitable share transfers to provinces are higher compared to the previous budget, conditional grants funds remain limited. Transfers to municipalities are also reduced. Provinces and

Municipalities need to prioritise their resources to ensure critical services are not negatively affected. Through strategic planning, structural reforms and robust financial management, they can continue to deliver the necessary services to their communities.
The balanced fiscal stance set out in the 2024 Budget will stabilise the public finances and reduce fiscal and economic risks, while promoting economic growth and supporting the most vulnerable members of society. Over the 2024 MTEF period, 60.2 per cent of consolidated non-interest spending goes to the social wage. The 2024 Budget reverses some of the spending reductions announced in the 2023 MTBPS by adding R57.6 billion to expenditure over the medium term, mainly to cover the costs of the 2023 public-service wage agreement.

Government remains on course with the medium-term fiscal strategy outlined in the 2023 MTBPS. A key objective of the strategy is to realise a primary budget surplus in the current year. The surplus will grow over the medium term, narrowing the budget deficit and allowing debt to stabilise at 75.3 per cent of GDP in 2025/26. In turn, this will enable government to arrest the trend of rising debt-service costs, which will peak as a proportion of revenue at 21.3 per cent in 2025/26 and decline thereafter.

Compared with 2023 MTBPS estimates, the debt-to-GDP trajectory improves mainly due to a lower gross borrowing requirement – the sum of the budget deficit, maturing loans and the Eskom debt-relief arrangement. A distribution totalling R150 billion from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) over the MTEF period will reduce government borrowing requirements.

2.1. Summary of the equitable share of nationally raised revenue

Table 1 below indicates overall equitable division of revenue raised nationally between national, provincial and local spheres of government for 2024/25, 2025/26 and 2026/27 financial years respectively.

Table 1: Equitable Division of Revenue Raised Nationally

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

2.2. Division of Revenue

Over the 2024 MTEF period, provinces and municipalities are allocated R2.8 trillion or 51.1 per cent of total non-interest spending. Of this amount, R2.3 trillion goes to provinces, while local governments receive R531.7 billion. Funds are allocated to provinces and municipalities in the form of equitable shares and conditional grants. Equitable shares are distributed through a formula that factors in demographic and developmental considerations, while conditional grants are intended to achieve specific objectives, and they are made available to provinces and municipalities upon meeting specific criteria and fulfilling conditions relating to their use.

Provinces and municipalities face significant spending and revenue pressures from the rising costs of basic and social services, as well as declining economic growth and high borrowing costs. Table 2

below sets out the division of revenue over the MTEF period. Over the medium-term expenditure framework period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provincial government and 9.8 per cent to local government.

Table 2: Division of nationally raised revenue

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual MTEF
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	**790,5**	**822,8**	**855,9**	**823,9**	**848,5**	**853,7**	**890,5**	**2,6%**
of which:								
Indirect transfers to provinces	*3,0*	*3,8*	*3,5*	*4,0*	*3,8*	*4,2*	*4,2*	*1,5%*
Indirect transfers to local government	*4,1*	*5,7*	*7,0*	*8,3*	*7,1*	*7,5*	*8,0*	*-1,1%*
Provinces	**628,8**	**660,8**	**694,1**	**706,4**	**729,5**	**760,9**	**790,8**	**3,8%**
Equitable share	520,7	544,8	570,9	585,1	600,5	627,4	655,7	3,9%
Conditional grants	108,1	116,0	123,3	121,3	129,0	133,4	135,1	3,7%
Local government	**137,1**	**135,6**	**150,7**	**157,8**	**170,3**	**177,7**	**183,8**	**5,2%**
Equitable share	83,1	76,2	83,9	92,7	101,2	106,1	110,7	6,1%
Conditional grants	40,0	44,8	51,4	49,7	53,0	54,7	55,5	3,8%
General fuel levy sharing with metros	14,0	14,6	15,3	15,4	16,1	16,8	17,6	4,5%
Provisional allocation not assigned to votes[1]	–	–	–	–	0,6	41,1	53,5	
Non-interest allocations	**1 556,4**	**1 619,2**	**1 700,7**	**1 688,1**	**1 748,8**	**1 833,3**	**1 918,5**	**4,4%**
Percentage increase	*4,7%*	*4,0%*	*5,0%*	*-0,7%*	*3,6%*	*4,8%*	*4,6%*	
Debt-service costs	232,6	268,1	308,5	356,1	382,2	414,7	440,2	7,3%
Contingency reserve	–	–	–	–	5,0	7,6	14,5	
Main budget expenditure	**1 789,0**	**1 887,3**	**2 009,2**	**2 044,2**	**2 136,0**	**2 255,6**	**2 373,2**	**5,1%**
Percentage increase	*5,8%*	*5,5%*	*6,5%*	*1,7%*	*4,5%*	*5,6%*	*5,2%*	
Percentage shares								
National	*50,8%*	*50,8%*	*50,3%*	*48,8%*	*48,5%*	*47,6%*	*47,7%*	
Provinces	*40,4%*	*40,8%*	*40,8%*	*41,8%*	*41,7%*	*42,5%*	*42,4%*	
Local government	*8,8%*	*8,4%*	*8,9%*	*9,3%*	*9,7%*	*9,9%*	*9,9%*	

1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations
Source: National Treasury (Budget Review: 2024)

The division of revenue redistributes substantial resources from urban areas to fund rural services, which are often provided at high cost. It also subsidises services to millions of poor households in towns and cities through allocations to urban municipalities and provinces.

3. Provincial Revenue and Spending

Provincial government receive two forms of allocations from nationally raised revenue; the equitable share and conditional grants. Provinces are responsible for providing social services, including public basic education for 13.4 million learners and healthcare for 51.9 million South Africans who do not have private medical insurance. Most recipients' access these services free of charge or at very low cost. Provinces have very limited legal authority to tax or levy fees. They expect to collect R79.7 billion in own revenue over the MTEF period, mainly from motor vehicle licence fees. These own

revenues make up just 3.4 per cent of their total resources, with the rest transferred through the equitable share and conditional grants.

Transfers to provinces account for approximately 97 per cent of provincial revenue in 2024/25. Direct national transfers to provinces are projected to increase from R706.4 billion in 2023/24 to R729.5 billion in 2024/25 and grow at an average rate of 3.8 per cent annually to reach R790.8 billion in 2026/27. The transfers include R600.5 billion for the provincial equitable share and R129 billion for conditional grants.

To cover the carry-through cost of implementing the 2023 public-service wage agreement, mainly in the education and health sectors, the 2024 Budget allocates an additional R105.5 billion over the next three years to provinces. The provision of additional funds to cushion these wage bill pressures has released resources for capital investment and goods and services. An amount of R3.9 billion, which was previously added to the provincial equitable share for wage bill costs, is now shifted to conditional grants in the education and health sectors. Moreover, reductions that were previously made to several grants have been reversed. Restoring the baselines of these grants will help maintain important services for the most vulnerable and provide for critical capital investments. Conversely, reductions are made to several other grant baselines due to reprioritisation and spending reductions in the context of fiscal consolidation. Total conditional grant funding increases from R125.3 billion in 2023/24 to R139.3 billion in 2026/27.

3.1. Proposed changes to provincial government allocations

Over the 2024 MTEF period, revisions to the provincial fiscal framework reflect fiscal consolidation reductions that respond to the fiscal pressures by government. Over the 2024 MTEF period, additions have been made to cover the costs associated with the 2023 public service wage agreement. The revisions also include the shift of funds to national government and between conditional grants. Over the medium term, provincial transfers are reduced by R88.4 billion. Of this amount, direct transfers are reduced by R86.1 billion and indirect transfers by R2.3 billion.

3.1.1. Proposed reduction to the provincial equitable share

The provincial equitable share is reduced by R19.6 billion in 2024/25, R20.6 billion in 2025/26 and R21.3 billion in 2026/27.

3.1.2. Proposed reprioritisation and additions to the provincial equitable share

- The 2023 MTBPS announced that the education and health sectors in the provinces would receive an allocation of R68.2 billion over the 2024 MTEF period to cover the carry-through cost of implementing the 2023 public-service wage agreement. These funds were initially allocated through the provincial equitable share. Of these funds:
  - A total of R3.9 billion has since been redirected to the provincial conditional grants in these two sectors that fund employee compensation.
  - A total of R136 million has been redirected to the conditional grants in the education sector and R3.8 billion to the conditional grants in the health sector.
  - A total of R64.2 billion remains in the provincial equitable share and is allocated to provinces through the equitable share formula.
- Since the 2023 MTBPS, further additions of R37.3 billion have been made to the provincial equitable share over the MTEF period, mainly for education and health to deal with compensation of employees pressures emanating from the wage agreement.

3.2. Proposed changes to provincial conditional grants allocation

Conditional grants to provinces are reduced by R6 billion in 2024/25, R9 billion in 2025/26 and R11.8 billion in 2026/27.

3.2.1. Proposed reprioritisation of provincial conditional grants allocation

Funds were previously added to the *early childhood development grant* to pilot a nutrition support programme and a result-based service delivery model. From 2024/25, the nutrition support programme and result-based service delivery model will be implemented by national government. An amount of R1.1 billion is reprioritised from the *early childhood development grant* to national government over the medium term for this purpose.
An amount of R737 million is shifted from *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 conditional grant. The funds will be used for the continued development and expansion of tertiary services.

To improve the management of the national health insurance indirect grant, the personal services component and the non-personal services component of the grant will be merged into one component for the 2024 MTEF period. The newly merged health systems component will continue to implement the programmes that were funded through the previous two components of this grant.

4. Local Government Revenue and Spending

Funds raised by national government are transferred to municipalities through conditional and unconditional grants. The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere. The framework refers to all resources available for municipalities to meet their expenditure responsibilities. National transfers account for a relatively small proportion of the local government fiscal framework, with most local government revenues raised through their own revenue generating powers.

In 2022/23, local governments received approximately R150.7 billion from national government, accounting on average for about 24 per cent of total municipal revenue. The balance is made up of own revenue raised by local governments, which have significant revenue-raising powers, including cost recovery on main services and property rates. Transfers to local governments tend to hover around 10 per cent of total revenue. When own revenue raised by local government is included, however, local government accounts for 28 per cent of the total revenue. Despite these powers, municipal budgets are under tremendous pressure and spending is often inefficient. For example, municipal councils approved salary and wage increases of 5.4 per cent for 2023/24, which require the diversion of funds from local government policy priorities to pay salaries. These above-inflation increases are hard to justify, especially when productivity has been low.

Additions made in the 2024 Budget include R1.4 billion for the *municipal disaster recovery grant* to fund the repair and reconstruction of municipal infrastructure damaged by the floods that occurred in 2023. Allocations to the neighbourhood development partnership grant are increased by R650 million as part of the Public Employment Programme. The conditional grant review process has identified various reforms to be considered in the 2025 budget process, with phased implementation. It has also identified challenges within the intergovernmental fiscal system, highlighting action needed at different levels, from grant management to individual grants.

4.1. Proposed changes to local government allocation

Several reductions to local government allocations were proposed in the 2023 MTBPS. A number of these have been reversed or revised downwards and several further cuts and other reprioritisations effected to make funds available for other government priorities. Previous reductions proposed to the general fuel levy sharing with metropolitan municipalities, the *rural roads asset management systems grant* and the *water services infrastructure grant* have been reversed. Having taken these revisions into account, local government allocations decrease by R13.5 billion over the 2024 MTEF period. Direct allocations to municipalities over the next three years grow at an average annual rate of 4.6 per cent. Indirect allocations decline at an average annual rate of 1.1 per cent.

4.1.1. Proposed reduction adjustments

- The previous reduction of R218 million to the *integrated national electrification programme municipal grant* is revised to R204 million over the same period;
- The previous reduction of R49 million over the MTEF period to the *municipal disaster response grant* is revised to R35 million over the same period; and

- The previous reduction of R48 million over the MTEF period to the *municipal systems improvement grant* is revised to R27 million over the same period.

4.1.2. Proposed reductions to conditional grants allocations

To make funds available for other government priorities, further reductions have been made to some municipal conditional grants over the 2024 MTEF period. These includes:

- An additional reduction of R3.5 billion to the *integrated national electrification programme Eskom grant*;
- An additional reduction of R73 million to the *integrated urban development grant*;
- An additional reduction of R14 million to the *energy efficiency and demand-side management grant*;
- An additional reduction of R4 million to the *public transport network grant*;
- An additional reduction of R127 million to the direct component of *the regional bulk infrastructure grant*; and
- An additional reduction of R852 million to the indirect component of the *regional bulk infrastructure grant*.

4.1.3. Reprioritisation of conditional grants allocations

- A proposed amount of R58.3 million from the *direct component of the municipal infrastructure grant* is converted to the indirect component of the grant;
- A proposed amount R587 million from the *direct component of the regional bulk infrastructure grant* is converted to the indirect component;
- A proposed amount of R2 billion is reprioritised from the *integrated national electrification programme municipal grant* to fund the baseline for the new smart meters grant; and
- A proposed amount of R432 million is reprioritised from the *integrated national electrification programme Eskom grant* to fund other priorities in the energy sector.

4.1.4. Shifting of conditional grants allocations

- A proposed amount of R91 million from the *integrated urban development gran*t and R1.4 billion from the *municipal infrastructure grant* are shifted 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;
- A proposed amount of R400 million from the first two years of the MTEF period is shifted to the outer year in the *public transport network grant*;

5. Substantive changes to the Bill Clauses

Most of the Bill clauses remain the same from one year to the next. Changes in the 2024 Bill include:

- **Section 10 - Duties of transferring officer in respect of Schedule 5 or 6 allocations**
  - Problem addressed: clarifies that the transferring officers of schedule 6 allocations are responsible for monitoring indirect grants and that this is applicable to both municipal and provincial grants.
  - **Sub-clause (5)** is revised to include Schedule 6 allocation to make 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**
  - Problem addressed: allows for municipalities that have been accredited to perform the ISUP to have certainty of the allocations and enables better planning.
  - **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: Provinces (ISUPG: Provinces), per municipality with level one or level two accreditation of the ISUP.
  - In line with the change above, **subsection 6(c)** is updated to include amendments to allocations from the ISUPG: Provinces in the Gazette amending allocations published in terms of paragraphs (a).
- **Section 14 - Duties in respect of annual financial statements and annual reports for 2024/25**
  - Problem addressed: addresses ambiguity in compliance phrasing, clarifying measures and extent.
  - **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**
  - Problem addressed: clarifies when the shifts come into effect, which is the date of publication of the notice.
  - **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.
    - Problem addressed: ensures that when a municipality is accredited to administer the ISUP, funds accordingly flow to it to enable it to perform this function.
  - **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**
  - Problem addressed: Enables provincial treasuries to monitor performance and assess feasibility, thereby helping National Treasury make informed decisions.
  - **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**
  - Problem addressed: was previously misinterpreted to mean funds must be transferred within 100 days after the occurrence of a disaster. This certainly helps to treat the immediate response to disasters with the urgency it deserves.
  - **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 a 100 days count starts from the day of classification of a disaster.
    - Problem addressed: allows the NDMC to get receiving officers to treat immediate response with the urgency it requires. In its approval letters to receiving officers, the NDMC will now be able specify the expenditure timelines, on a case-by-case basis, considering the situation at hand.
  - **Subsection 3(d)** is revised to enable the National Disaster Management Centre to stipulate a timeframe within which schedule 7 allocations must be spent.

6. Changes to the Schedules of the Bill

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

7. Comments and public hearings on the 2024 Division of Revenue Bill

This section provides an overview of the comments on the Bill from the Financial and Fiscal Commission, Parliamentary Budget Office and South African Local Government Association. Furthermore, this section will also provide a summary of public submissions received on the Bill.

7.1. Financial and Fiscal Commission

The Financial and Fiscal Commission submitted that provinces were responsible for the delivery of social goods and services which are not revenue generating. This made provinces highly dependent on fiscal transfers and therefore vulnerable to policy reprioritisation and funding constraints. Decisions regarding wage agreements occurred outside the budgeting process, thus 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 and the impacts of wage negotiations which happened without taking full cognisance of the fiscal framework and intergovernmental fiscal relations system.

The FFC stated that over the 2024 MTEF the total provincial allocation increases by 3.8 per cent to R2.3 trillion. This accommodated for the downward revisions to provincial transfers due to reprioritisations in the context of fiscal consolidation. Furthermore, it catered for additions to cover the carry-through cost of implementing the 2023 public-service wage agreement totalling R105.5 billion over the MTEF.

Regarding conditional grants to provinces, the FFC noted the substantial proposed reductions of R1.5 billion and R1.2 billion to the Human Settlements Development (HSDG) and the Informal Settlements Upgrade (ISUP) grants occurred while housing and informal settlements backlogs and incidence of poverty remained high. Also, the FFC submitted that the proposed reductions to the District Health Programme, National Health Insurance (indirect component) may undermine the progress and efforts made in district health development and the implementation of the National Health Insurance (NHI). More concerning was that this occurred when the 2022 mid-year estimates showed an increase in the number of people living with HIV/AIDS. The FFC was also concerned with a material reduction in the funding for Ilima/Letsema as the grant assists previously disadvantaged farmers and contributes to food security. The Commission also noted that R1.1 billion which has previously been added to the Early Childhood Development for nutrition support and results-based service delivery will 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 per cent over the 2024 MTEF. Even though this increase was below the food inflation rate.

Regarding local government, 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. To this end, both the national and provincial spheres of government needed to assist in strengthening municipal finance and investment, to revitalise local development, create more employment and promote welfare through basic services. The FFC also noted with concern the persistent struggles of municipalities due to deficiencies in capacity and their inability to address the obstacles.

The FFC noted that over the 2024 MTEF, local government was set to receive total transfers amounting to R531.8 billion in direct transfers and R22.7 billion in indirect local government conditional grant transfers. The allocation through the Local Government Equitable Share (LGES) amounted to R317.9 billion, while R163.2 billion was allocated for conditional grants, and R50.6 billion for the general fuel levy. The FFC welcomed government's efforts to keep 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,
where the smaller, more rural municipalities received more funding via the formula.

The local government sector was set to receive R163.2 billion as direct conditional grants and R22.7 billion in indirect grants over the 2024 MTEF, with infrastructure grants accounting for 96.3 per cent of the allocations whilst capacity grants were at 3.7 per cent. The FFC noted the additional R650 million added to the Neighbourhood Development Grant for 2024/25 that was geared towards aiding government's efforts in job creation. The FFC noted that this was a capital grant, therefore, it 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 also noted a significant decrease of 17.3 per cent year-on-year on the capacity-building and other current transfers and it welcomed the R1.95 billion over the MTEF for the procurement of smart meters. It also welcomed the funding of the District Development Model where an allocation of R445 million over the 2024 MTEF has been prioritised via the Municipal Systems Improvement Grant.

The FFC made the following recommendations on the Bill:

- The FFC emphasised the strengthening and improvement of spending on the National School Nutrition programme to ensure alignment with the grant objectives and that consideration be given to linking the rate of increase in the grant to that of food inflation.

- That once the pilot phase of nutrition support programme within ECD to be undertaken by the national Department of Basic Education of the was completed, the programme should be implemented by provinces. This was in line with the previous recommendation that indirect conditional grants be used as a last resort by government.
- That the Department of Agriculture and Rural Development and the Department of Health elaborate on how the reductions to the Ilima/Letsema, and the District Health Programme grants were likely to affect service delivery and plans in place to mitigate the effects thereof.
- The FFC emphasised the need for a comprehensive review of the local government fiscal framework to address the systemic challenges facing the sphere.
- That 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 costs of municipal outputs, evaluating performance, and comparing results while being mindful of innovation to promote continuous development, through the District Development Model principle.
- That non-financial information be included in the conditional grant reporting framework for local government. The inclusion of non-financial information will facilitate the monitoring and evaluation of grant performance, thereby enhancing and strengthening oversight regarding the success of the interventions.

7.2. Parliamentary Budget Office

The Parliamentary Budget Office (PBO) commenced its submission by explaining that national and provincial governments have concurrent responsibility for a range of functions such as school 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. The PBO submitted that national government had the largest revenue-raising capacity while provinces had limited capacity whilst having significant spending responsibilities. Municipalities collected revenue through, property rates, user charges, tariffs for services and fees, however, their budgets were under tremendous pressure, and they struggled with programme implementation challenges.

The Parliamentary Budget Officer 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 has been implemented primarily from equitable share allocations and conditional grants in the community and economic development functions. Furthermore, the reallocation of funds was towards other function groups for compensation of employees.

The PBO also gave an overview of the allocations to provincial government with emphasis on the changes to conditional grant allocations. The PBO submitted that the total average annual growth of the PES was 3.9 per cent over the 2024 MTEF versus the previous estimate of 3.3 per cent over the 2023 MTEF, however the increase from 2023/24 to 2024/25 was only 2.6 per cent. With regard to human resource and training, the PBO submitted that funds would be shifted to Eastern Cape, Limpopo, Mpumalanga, 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 post. The PBO also expressed concern at the substantial reductions in the Human Settlements Development grant and the Informal Settlements Upgrading Partnership grant over the 2024 MTEF.

The PBO highlighted that the proposed allocations to local government decreased by R20.6 billion over the 2024 MTEF. Direct transfers decreased by R13.5 billion over the 2024 MTEF period of which R9.6 billion was from the equitable share and R3.9 billion from conditional grants. The PBO highlighted that the proposed R841 million reductions in the EPWP, about R1.7 billion shifted from the Municipal Infrastructure grant to the Municipal Disaster Recovery grant, and R5.6 billion reduction in the Integrated Electrification Programme. It further gave an overview of the allocations towards the Covid-19 Social Relief of Distressed (SRD) grant and expressed concerns that government has chosen not to adjust the allocation by inflation since its introduction in 2020. The PBO submitted that the allocations to the SRD grant have been inadequate since its inception, yet at the same time the number of beneficiaries were expected to increase.

7.3 South African Local Government Association

The South African Local Government Association (SALGA) acknowledged government's efforts to attain fiscal sustainability by narrowing the budget deficit and stabilizing debt. It noted that the 2024/25 national budget outlined fiscal risks at national and provincial level. However, it stated that the fiscal risks have 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 into economic infrastructure projects should be inclusive of local economies in municipalities and should be accelerated in the short to medium term.

SALGA referred to the R177 billion allocation to local government which amounted an increase of R4.9 billion from the previous year. It emphasised that this still constituted a share of 9.7 per cent from the fiscus. It further stated that Organised Local Government still maintained that the local sphere of government was not adequately funded as municipalities were only able to cover 60 per cent of their expenditures from their own generated revenues. Furthermore, municipalities experienced revenue challenges due to the high level of unemployment and poverty, resistance to pay for services, illegal connections and theft.

SALGA noted a net decrease of R384 million in the conditional grants to local government in the 2024/25 financial year, which was unacceptable given the infrastructure backlogs within municipalities. Furthermore, the 2024 MTEF budget allocations continued to stagnate and decline for local government. SALGA asserted that the proposed allocations over the MTEF ignored the current realities in local government of growing expenditures which outpaced eroding own revenues of municipalities.

SALGA welcomed the proposed Smart Meter grant amounting to R2 billion and stated that this will go a long way in assisting municipalities in metering for water and electricity and revenue collection. Notwithstanding this, SALGA raised concerns that the proposed grant allocation was made up of reprioritisation of funds from the Municipal Infrastructure Grant and the Integrated National Electrification Programme. The shifting was troublesome to the local government sphere, since the funds ought to have originated from additional grants that each municipality has been awarded such as Urban Settlements Development grant and Integrated Urban Development grant. SALGA made the following recommendations regarding the proposed Smart Meter grant:

- National Treasury should ensure end-to-end support on project rollout;
- Business case readiness assessment of municipalities should be conducted before implementation by National Treasury;
- A clear framework on how municipalities will access the grant must be developed;
- A steering committee to support and assist in developing the framework should be established; and
- SALGA supported the use of National Treasury's transversal tender (RT29-2024) and the departments also managing the grant.

Regarding the infrastructure delivery reforms, SALGA welcomed the initiatives to reduce waste and improve the quality of public sector investment. It also welcomed the establishment of the infrastructure and implementation support agency that will cut across all spheres of government. SALGA proposed that there be consultation with organized local government on all municipal legislative changes as well as constant impact assessment of legislation to achieve intended outcomes.

SALGA welcomed the review by National Treasury of the Local Government Fiscal Framework, particularly the refinements to the equitable share formula. It also welcomed the proposed review of the capacity building systems, to improve the administration and programmes and rationalizing the capacity building grants. SALGA also 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. It expressed concerns that the horizontal budget allocations to municipalities located on the borders of the country do not consider

the fiscal and service delivery constraints that these municipalities were under due to uncontrolled and illegal immigration.

In conclusion, SALGA made the following recommendations on the Bill:

- Any fiscal gains that government achieves must be directed at local government to improve financial sustainability of municipalities.
- National Treasury should expedite the review of the Local Government Fiscal Framework and consider the outcomes of SALGA's study in this regard.
- The Standing and Select Committees of Appropriations should take note of and escalate the preliminary findings of SALGA's review of the Local Government Fiscal Framework.

7.4Equal Education and Equal Education Law Centre

Equal Education and Equal Education Law Centre submitted that they were concerned about declining PES allocations to the provinces and the impact of the public sector wage bill. The two organisations commented that the additional R37.3 billion allocated to cover the Public Sector Wages was welcomed, for teachers and healthcare workers. However, organisations stated that they were concerned because the additional funding may have been reprioritised and diverted from other essential core functions to fund this allocation, as well as the level of spending allocated for salaries. The organisations highlighted that while on the surface, an additional 3.2 per cent for the compensation of basic education personnel may seem promising, this only covered below-inflation increases for existing personnel and may not cover the cost of hiring of new educators.

Equal Education and Equal education Law Centre 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 a school overcrowding crisis, provinces and schools may also not hire replacement/substitute teachers when permanent staff were not available. The two organisations argued that this was occurring regardless of the overwhelming evidence that South Africa faces a teacher shortage that was only set to become worse, with just under half of all publicly paid teachers set to retire by 2030. The organisations added that even National Treasury itself had acknowledged the negative impact this decision was likely to have, that it could possibly result in weaker education outcomes.

Equal Education and Equal education Law Centre recommended the following:

- That a timeframe for the PES review should be made public and that the review must include a period of public consultation on proposed models. Furthermore, National Treasury must make a solid commitment to revise the Equitable Share formula which should include the following:
    - Considering the costs of education provisioning in rural areas when calculating the education component;
    - Increasing the poverty component of the formula;
    - Considering school quintiles levels; and
    - Increasing Provincial Equitable Share (PES) allocations in line with inflation, growing levels of poverty, and the number of public service users.
- That there be an increase in the value of the ECD subsidy to at least R46 by 2029.
- That provision be made for adequate funding for pre-registration support and improvements to infrastructure.
- That there be a phasing-in of nutrition support for children at all ECD programmes, whether registered or unregistered.
- That the Education Infrastructure Grant value be increased to at least R19.7 billion to enable provinces to address infrastructure backlogs.
- That the School Infrastructure Backlogs Grant value be increased to R6 billion so that school communities in need of urgent infrastructure provision are actively reached.
- That the estimates of food inflation figures be revised so that they are more consistent with current figures.
- That the allocation to the National School Nutrition Programme be benchmarked against food inflation estimates.

7.5Western Cape Childrens Commissioner

The Western Cape Children's Commissioner (WCCC) submitted that the state should consider developing a child-centered and child-friendly governance system; the debt burden on children; reconsideration of the proposed state reconfiguration; avoiding cuts to social sector spending; and bolstering child welfare and child protection budgets.
In conclusion, the WCCC recommended that:

- There was a need for child friendly and child-centred budgets, as highlighted by the Child Government Monitors (CGMs). WCCC recommended that future budget communications and formats should be tailored to be more accessible and understandable for children. This should include the use of simplified language, visual aids, and engaging formats to ensure that children can comprehend and engage with budgetary information.
- Budget 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 are not compromised due to funding gaps or budget cuts.

The WCCC concluded the submission by emphasising the importance of considering the debt burden on children and the potential impact of debt service costs on their future financial responsibilities. And lastly, that measures should be taken to avoid accumulating excessive debt which could burden future generations.

7.6Amandla.mobi

Amandla.mobi opened their submission by welcoming increases to some of the social grants, and the extension of the R350 Social Relief of Distress grant to March 2027. It further welcomed the increase in taxes on alcohol and tobacco, including the budget set aside for the PES. Amandla.mobi also welcomed the budget allocation for salaries of teachers, doctors and nurses.

However, it raised a concern that government allocated more budget for social grants each year, but that was undermined by the substantial increase in the cost of living that have gotten severe recently. This included the triple challenges of inequality, poverty and unemployment. Amandla.mobi emphasized this by indicating that the household food basket had increased to an average of R5 098.00, which was over the minimum wage of a general worker. As such, it explained that the cry for an increase of the R350 SRD grant was because it did not match the food poverty line of R760. Moreover, 16 million people qualify for the R350 grant, but only 8.5 million were getting it due to exclusionary regulations. Amandla.mobi called for the increase and expansion of the R350 SRD grant to a Basic Income Grant.

Regarding the Child Support Grant, Amandla.mobi submitted that 13 million children were receiving the grant as of October 2023 report. It added that R938.25 was the cost of nutritious meal for feeding a child and argued that the rising food prices meant an increase of R74 for a basic nutritious meal. This placed children at risk of malnutrition and stunting therefore, R539 per child for the grant was not enough.

On interaction with National Treasury, through requests for information and Promotion of Access to Information Act (PAIA) obligation, Amandla.mobi expressed its disappointment at the underwhelming replies it received. Amandla.mobi argued that there was no actual research evidence provided for decisions taken. Therefore, it further questioned whether National Treasury was not using outdated/non-existent information to make important decisions and asked it further the Committee to intervene in the matter.

7.7Budget Justice Coalition

The Budget Justice Coalition (BJC) noted the proposed increase of 2.6 per cent for the PES from R585 billion in 2023/24, to R600.5 billion in 2024/25 financial year, and expressed regret that this increase was below inflation. The BJC commented that a 4.7 per cent CPI-inflation rate forecasted for the 2024/25 period translated into a 6.9 per cent real cut, which would constrain provincial governments' available resources to perform their core functions effectively. The BJC added that this extended a trend of disinvestment in the public service allocations, where inflation continued to erode the value of these investments. The BJC argued that the erosion in the value of the PES may be more

pronounced in female-headed households, especially in provinces with a higher population living in rural communities and could worsen gender inequality in those provinces.

The BJC further noted that a net reduction of R573 million was proposed to the Education Infrastructure Grant (EIG) baseline over the Medium-Term Expenditure Framework (MTEF). The BJC submitted that given the infrastructure backlogs, the proposed reduction was not justifiable. The BJC emphasised that to ensure sustained development and improvement of educational facilities, it was crucial to advocate for increased funding to the EIG. The BJC also expressed concern regarding underspending in the provinces, notably, the Eastern Cape and Mpumalanga provincial departments forfeiting more than R400 million of the EIG due to underspending, despite having massive infrastructure backlogs.

The School Infrastructure Backlogs Grant (SIGB) was the primary source of funding for the Accelerated School Infrastructure Delivery and Sanitation Appropriate for Education Initiatives (ASIDI and SAFE). The BJC commented that these programmes were instituted to eradicate urgent school infrastructure backlogs, such as pit latrines toilets, schools built entirely out of inappropriate materials, and schools without water or electricity. The BJC expressed shock that the 2024 national budget proposed to reduce allocations to the SIBG by R1.526 billion over the 2024 MTEF. The BJC added that the SIBG funding was already too low to correct even the most urgent infrastructure backlogs. It submitted that the proposed cuts should be reversed, and additional allocations should be made to the SIBG so that backlogs could be eradicated in compliance with the State's legal obligations.

The BJC noted that overall, conditional grants allocations to the provinces increased from R121.3 billion in 2023/24 to R129 billion in 2024/25. This was a 6.3 per cent increase which is above the 4.7 per cent CPI for the period. The above inflation increase to the conditional grants was welcomed, as the grants fund essential programmes, such as, school nutrition, infrastructure and HIV/AIDS treatment and education, meaning that provinces were better equipped to realise the rights to education and access to health care for all.

The BJC further noted that the National Treasury had been reviewing the health and education component formulas of the PES for many years, however, the review process lacked public consultation. The BJC argued that the reviewed formulas were yet to be fully implemented, and that posed a serious risk to the equitable implementation of vital social services. Furthermore, the BCJ stated that the poverty (redress) component of the PES only accounted for 3 per cent, despite claims that the PES was "equitable". The BCJ submitted that there was no accounting for the increased costs of social provisioning in rural areas, that faced historical backlogs and had infrastructure and populations that were much more widely spread.

The BJC noted that overall, the 2024 national budget increased the funding for Early Childhood Development (ECD) subsidies, as well as support to ECD programmes to meet infrastructure and other requirements of formal registration and to facilitate wider access to ECD. However, the BCJ highlighted that the increase in the overall funding for ECD was tempered with by a freezing of the ECD subsidy valued at R17 per child per day for the sixth consecutive year. The BCJ further argued that this had a potential to place under pressure approximately 11 500 ECD programmes that rely on subsidies as their main source of income, as food, electricity and other costs continued to increase. The BCJ added that, the subsidy was currently set at R17 for ECD centres and R6 for non-centre-based programmes, and that the value of this subsidy had been reduced by 25 per cent in real terms since 2019.

The BJC acknowledged that the National School Nutrition Programme (NSNP) has been growing steadily since its inception but noted that the growth in the allocations was not pegged to food inflation estimates, which had soared in recent years. According to BCJ, the 5.1 per cent 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 per cent in March of 2023.

With respect to the HIV/AIDS (Life Skills Education) Grant, the BJC highlighted that this grant had been significantly reduced in real terms in recent years, and this was being exacerbated by the proposed reductions to the grant's baseline figures in the 2024 Budget. The BJC commented that this could presumably impacts on the ability of the DBE to provide comprehensive sexual and

reproductive health education in schools and that the reduction also coincided with trends indicative of reduced condom use among individuals aged between the 15-24-years.

BCJ made the following recommendations:

- That allocations to provinces to be aligned with CPI, population growth and the increased number of people relying on public services.
- That there be an increase in the value of the ECD subsidy from R17 to R23 in the October 2024 Adjustments Budget.
- That, instead of provinces forfeiting unspent EIG grant allocations, the funds be reprioritised for training and capacity-building initiatives to build the provincial government's ability to efficiently plan and procure school infrastructure. The BJC further suggested instituting consequence management procedures against implementing agents who have failed to deliver projects they had been contracted to build.
- That Parliament should consider the Financial and Fiscal Commission's (FFCs) recommendation that the National Treasury and Departments should consider indirect grants, such as the SIBG, only as a last resort measure while continuing to build capacity in the provinces and municipalities, a position supported by the National Treasury. However, reducing the SIBG's budget without investing in capacity building and fighting underspending would only entrench the barrier that infrastructure plays in education attainment in under-resourced schools.
- The BJC supported the South African Human Rights Commission's recommendation for the NSNP to be extended to serve children below the primary school level and for the Department of Basic Education in collaboration with the Department of Social Development, to consider extending the NSNP to distribute food to learners on weekends and school holidays.
- That, instead of reducing investment in overcoming the HIV epidemic, any cost savings need to 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 this epidemic. The investment could be made in robust health information systems, improved treatment literacy and providing comprehensive support to people on ART to bolster ART retention.
- That the Fiscal and Financial Commission and the Parliamentary Budget Office be requested to undertake studies on the Municipal Revenue Model to explore options to alleviate these challenges.
- That National Treasury should make use of the direct Water Services Operating Subsidy Grant (WSOSG) to ensure that municipalities reduce none-revenue water that was being lost due to leaks. They argued that this could go a long way to addressing intermittent water supply in some areas.
- That estimates on municipal bills be tied to the average actual use by the household, to avoid over-inflating the revenue due to municipalities and initiate a municipal billing drive to deal with billing errors.

7.8 Section27

Section27 submitted that, while the Bill was characterised by less severe budget cuts to conditional grants meant for public services, it was still an austere budget. This budget constrained resources available for public facilities like schools and hospitals to provide constitutionally protected rights. Section27 recognised that difficult fiscal choices needed be made, even in the context of weak economic performance. However, it commented that constitutional rights to basic education and healthcare for all in our country must be protected.

Section27 argued that in the previous submissions it called for fiscal policy and legislation to consider gender inequality in pursuing budget decisions, through a gender-responsive budget (GRB). It motivated this by stating that fiscal policy could be a powerful tool in alleviating gender inequities by resourcing interventions such as the child support grant (of which most recipients are womxn) and HIV/AIDS life skills investment (in a country where young black womxn are disproportionately represented in HIV statistics). Moreover, Section27 highlighted that the pursuit of fiscal consolidation characterised by real cuts to public services such as basic education and health care would likely worsen these inequalities. Section27 added that when budgets for these sectors were cut, womxn mask the impact of these austere measures as "shock absorbers" with their unpaid care work, which may also impact the time poverty they face.

Section27 highlighted that the 2023/24 Budget announced significant progress in advancing Gender Responsive Budgeting (GRB). However, it expressed disappointment that GRB had been pushed further backwards to the 2024 MTBPS and argued that this meant yet passing budget and legislation without considering their impact on the quality of life for womxn in this country. Section27 reiterated their call for urgent implementation of gender responsive budgeting and called Parliament to compel the National Treasury to provide updates regarding its commitment to leading an interdepartmental steering committee and working with stakeholders to develop a roadmap and tools to facilitate gender-responsive budgeting (GRB). Moreover, Section27 recommended public workshopping of GRB guidelines and tagging so that the womxn in this country could better shape the National Budget - creating a genuinely gender-responsive budget.

Section27 submitted that they continued to advocate for budget allocations towards basic education and health care as a mechanism to redress gender inequities in our country. It argued that a well-resourced, adequately staffed public healthcare and school system would redress the socio-economic hardship womxn face and free their time to participate meaningfully in the formal economy and their communities. Furthermore, the gendered reliance on public services meant that each million that was not used to deliver public services also worsens gender inequality in the country. To address that, Section27 called for greater investment in building provincial capacity to deliver public services and to effect meaningful consequence management for under-utilised budgets. Furthermore, attracting and retaining excellent public servants in local and provincial health governments was crucial in bolstering the capacity to spend budgets efficiently, thereby ensuring that intended beneficiaries received better quality education and 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.

On budget cuts due to historical underspending and infrastructure projects being placed on longer-term completion timeframes, Section27 submitted that 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 provide proper oversight and ensure transparent, cost-effective and accountable public procurement.

Section27 reminded the Committee that in its 2023 submission, it expressed deep concern about a budget cut of R1 billion, to the HIV funding within the District Health Programmes grant, as part of cost containment measures. The organisation submitted that it was further alarmed that the 2024 Budget proposes a R1.3 billion cut to the comprehensive HIV/AIDS component of the District Health Programmes grant per year, over the 2024 MTEF period.

Section27 argued that in the previous year’s submission on the Bill, it welcomed the Gauteng Treasury allocation of R784 million to finance the outsourcing of radiation oncology services and surgery backlogs in Gauteng. Notably, Gauteng would outsource radiation oncology services for approximately 3 000 patients on the backlog list. The allocation was intended to ensure prompt access to urgent health care services and fast-track the procurement of outstanding radiation oncology machinery and equipment in that province. Section27 informed the Committee that it was concerned that a year since the allocation of these ring-fenced funds, the Gauteng Department of Health has failed to appoint a service provider that would provide outsourced radiation oncology services. The organisation added that it had been three years since the compilation of the list of backlog patients, some of whom had been awaiting radiation oncology services for years prior.

Section27 made the following recommendation on the Bill:

- That there be a reversal of the trend to disinvest in the PES.
- That instead of the provinces forfeiting unspent EIG grant funds, that the funds are prioritised for training and capacity-building initiatives. This will build the provincial government’s ability to efficiently plan and procure school infrastructure. Furthermore, consequence management procedures be instituted against implementing agents.

- That Parliament consider the Financial and Fiscal Commission's (FFCs) recommendation that National Treasury and national departments consider indirect grants, such as the SIBG only as a last resort measure while continuing to build capacity in the provinces and municipalities, a position supported by the National Treasury. Reducing the SIBG's budget without investing in capacity building and fighting underspending would only entrench the barrier that infrastructure plays in education attainment in under-resourced schools.
- Section27 supported the South African Human Rights Commission's recommendation for the NSNP to be extended to serve children below the primary school level and for the Department of Basic Education in collaboration with the Department of Social Development, to consider extending the NSNP to distribute food to learners on weekends and school holidays.
- Section27 contended that the oncology crisis in Gauteng was a manifestation of a multitude of factors including staffing, equipment and addressing backlogs. These issues could be resolved by ensuring that the remuneration of oncology staff was uniform across the provinces. Furthermore, provinces should be held accountable for the use of funds made available to them for the realisation of urgent access to health care services.

7.9Rural Health Advocacy Project

The Rural Health Advocacy Programme (RHAP) acknowledged the provincial additional budget allocations, including allocations for the Department of Health and it welcomed the recent filling of the medical officer posts. RHAP further commented that an effective coordination of the 2024 budget was important, as the goal of the allocations was to ensure that the constitutional obligations are met as stated in section 27 of the Constitution of the Republic of South Africa. RHAP further commented that rural health needs were mainly accessed through primary health care services at local clinics and district hospitals.

RHAP made the following recommendations:

- That a joint sitting of the Portfolio Committee on Health, and Standing Committees on Finance and Appropriations should be convened to consider how to prioritize budgets for state's ability to meet its constitutional mandates.
- RHAP welcomed additional funding to the PES, however it suggested that all provinces should present plans detailing what measures were being implemented to ensure that rural health services were protected from budget cuts.
- That the Department of Health should outline what plans were in place for the implementation of the National Human Resources for Health Strategy.

7.10 TB Accountability Consortium

The TB Accountability Consortium (TBAC) submitted that according to World Health Organization 2023 Global TB report, TB was the second leading cause of death of an infectious disease. In South Africa, around 280 000 people developed TB, and of that, 152 000 are people living with HIV. TBAC commented that 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 equitable share increase and district health services allocation from R113.1 billion to R120 billion. Moreover, TBAC welcomed the NHI grant focus on health systems information, which would lead to good governance.

TBAC acknowledged the current fiscal constraints in South Africa and noted that economic growth has been revised downwards from 0.8 per cent in 2023 MTBPS to 0.6 per cent in the 2024 national budget. TBAC further highlighted what they termed large-scale debt relief for Eskom with new energy investments, the significant fiscal consolidation. It was of the view that unless the TB programme budgets were protected, it was unclear how people who require TB services were to be able to get access to this important health need.

TBAC requested that TB funding should be safeguarded and that despite the development of the TB Recovery Plan, there was still lack of provisioning and implementation at provincial level. TBAC further submitted that there was a pressing need to improve accountability across all tiers of the

health system. They argued that this was crucial for ensuring an increase in TB treatment rates and a decrease in mortality rates.

7.11 Congress of the South African Trade Unions

The Congress of South African Trade Unions (COSATU) submitted that it appreciated the need to adjust allocations due to under-expenditure, unexpected and urgent new priorities. COSATU stated that it appreciated a large component of the Bill which catered for the 2023/24 wage agreement.

Regarding local government, COSATU submitted that 90 per cent of municipalities were in financial distress, with 27 failing to pay employee salaries and transfer deductions. COSATU also stated that residents owed municipalities R280 billion in electricity bills. On the other hand, municipalities owed Eskom R57 billion. Moreover, many municipalities were failing to provide basic services or indigent grants and subsidies.

COSATU welcomed the increase in municipal grants, plus interventions and capacity building programmes for 140 municipalities. COASTU commented that recapacitating of state-owned entities (SOEs) and municipalities was key to the massive R943 billion (R486 billion by SOEs and R214 billion by municipalities) infrastructure programme.

COSATU recommended that Parliament should hold much more aggressive approach to oversight over municipalities, provinces and SOEs' implementation of infrastructure programmes and implementation of Auditor-General's findings and recommendations.

8 Findings and Observations

Having deliberated and considered all the submissions made by the above stakeholders on Division of Revenue Bill (B4-2024), the Standing Committee on Appropriations makes the following findings and observations:

8.1 The Committee notes that while equitable share transfers to provinces are higher compared to the previous budget, conditional grants funds remain limited, while also noting the reductions in transfers to municipalities. The Committee acknowledges the current fiscal envelope of South Africa and would like to implore on Provinces and Municipalities to reprioritise their resources to ensure critical services are not negatively affected, particularly those directed to the poor.

8.2 The Committee notes and welcomes that over the 2024 MTEF period, 60.2 per cent of consolidated non-interest spending goes to the social wage. Given the socio-economic challenges facing the majority of the south African population, the Committee is encouraged by this proposal from government.

8.3 The Committee notes and welcomes that the 2024 Budget reverses some of the spending reductions announced in the 2023 MTBPS by adding R57.6 billion to expenditure over the medium term, mainly to cover the costs of the 2023 public-service wage agreement. However, the Committee reiterates its call to National Treasury to refrain from estimating public service wage increases outside the legally recognised Public Service Co-ordinating Bargaining Council. This will in turn prevent the tabling of adjustments budgets due to higher than anticipated wage agreements. The Committee is of the view that this negatively impacts on Parliament's programme and time, and limits Parliament's ability to focus on other important issues affecting country. Furthermore, if this is not addressed by National Treasury, it might unintentionally bring into question the transparency and credibility of the budget process.

8.4 The Committee notes and welcomes government's commitment to realise a primary budget surplus in the current year, which will grow over the medium term, narrowing the budget deficit and allowing debt to stabilise at 75.3 per cent of GDP in 2025/26. However, the Committee would like to implore on government to be careful and refrain from aggressively attempting to attain the budget surplus at the expense of key socio-economic related spending.

8.5 The Committee notes and welcomes that over the 2024 MTEF period, provinces and municipalities are allocated R2.8 trillion or 51.1 per cent of total non-interest spending. Furthermore, the Committee notes that of this amount, R2.3 trillion goes to provinces, while local governments receive R531.7 billion.

8.6 The Committee notes and welcomes that over the medium-term expenditure framework period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provincial government and 9.8 per cent to local government.

8.7 The Committee notes with concerns that over the medium term, provincial transfers are reduced by R88.4 billion, with direct transfers reduced by R86.1 billion and indirect transfers by R2.3 billion. The Committee is concerned that while government admits that provinces have limited revenue generating powers, with more critical socio-economic services to be offered for free or at low costs, these will in the long run compromise the ability of provinces to offer these free basic services.

8.8 The Committee notes and welcomes the proposed additional allocation of R1.4 billion for the municipal disaster recovery grant to fund the repair and reconstruction of municipal infrastructure damaged by the floods that occurred in 2023. The Committee reiterate its call for government to speedily repair the damaged infrastructure to minimise the negative impact to the affected population.

9 Recommendations

Having deliberated and considered all the submissions made by the above stakeholders on Division of Revenue Bill (B4-2024), the Standing Committee on Appropriations recommends as follows:

9.1 That the Minister of Finance ensures that National Treasury ensures that all the proposed allocations on the Bill are spent within the requirements of Public Finance Management Act and Treasury Regulations, while ensuring the attainment for the value for money.

9.2 That the Minister of Finance ensures that National Treasury and national departments consider indirect grants, such as the Schools Infrastructure Backlogs grant only as a last resort measure while continuing to build capacity in the provinces and municipalities.

9.3 That the Minister of Finance ensures that National Treasury National Treasury expedite the review of the Local Government Fiscal Framework and to also consider the outcomes of SALGA's and other key role players' studies and research in this regard.

9.4 That the Minister of Cooperative Governance and Traditional Affairs ensure that the Department of Cooperative Governance, in consultation with National Treasury and organised labour, introduce mechanisms to enhance the effectiveness and efficiency of the expenditure relating to the municipal and provincial disaster relief grant funding.

9.5 That the Minister of Cooperative Governance and Traditional Affairs, together with the South African Local Government Association, ensure that value for money be derived from the expenditure and resultant performance of service providers.

9.6 That government should ensure that more be done to grow the economy, especially at local government level as this will assist with the revenue base. Furthermore, local government must introduce effective mechanisms to reduce red tape, attract and promote small businesses

development as this will contribute positively to the gross-domestic product and as such employment opportunities.

9.7 Noting the lack of consequence management for those who consistently underspend and misuse government resources, the Committee recommends that government introduce intensive project management training of civil servants, especially those involved in capital and infrastructure programmes.

10 Committee Recommendation on the Bill

The Standing Committee on Appropriations, having considered the Division of Revenue Bill [B4-2024], (National Assembly) referred to it and classified by the Joint Tagging Mechanism (JTM) as a Section 76 Bill, recommends that the Bill be adopted, without amendments.

11 Conclusion

The Committee would like to express its appreciation on the inputs, comments and proposals made by all the stakeholders who participated during the consultation processes of this Bill. The Committee thanks the National Treasury, FFC, PBO, and SALGA for continually providing valuable inputs that enhances the work of the Committee and Parliament. Most importantly, the Committee would like to express its appreciation on the consistency in which interested stakeholders provide inputs and share valuable points for consideration with the Committee whenever invited. The Committee values all your contributions and your valuable inputs enhances the oversight role of the Committee, and subsequently that of Parliament.

Given the current socio-economic challenges that South Africa finds itself in, the Committee is faced with very limited choices within the tight fiscal environment. However, the Committee would like to assure all stakeholders that it will continue to engage with government on all the valuable suggestions made by all stakeholders who participated in the passage of the Bill. The Committee would like to encourage all stakeholders to continue to engage with the Committee on these important topical issues of public interest.

The responses by the relevant Executive Authorities, to the recommendations as set out in section 9 above, must be sent to Parliament within 60 days after the adoption of this report by the National Assembly.

Report to be considered.