ANNEXURES

Two annexures are available on the National Treasury website (www.treasury.gov.za):

- Annexure W1: *Explanatory memorandum to the division of revenue*
- Annexure W2: *Structure of the government accounts*

A

Report of the Minister of Finance to Parliament

Introduction

This annexure fulfils the requirement of section 7(4) of the Money Bills and Related Matters Act (2009), which prescribes that the Minister of Finance submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in:

- Budgetary review and recommendation reports submitted by committees of the National Assembly in terms of section 5 of the act.
- Reports on the fiscal framework proposed in the *Medium Term Budget Policy Statement* (MTBPS) submitted by the finance committees in terms of section 6 of the act.
- Reports on the proposed division of revenue and the conditional grant allocations to provinces and local governments set out in the MTBPS submitted by the appropriations committees in terms of section 6 of the act.

Budgetary review and recommendation reports

Section 5 of the act sets out the procedure that the National Assembly committees must follow when assessing the performance of each national department before the budget is introduced. This procedure provides for committees to prepare budgetary review and recommendation reports, which:

- Must provide an assessment of the department's service delivery performance given available resources.
- Must provide an assessment on the effectiveness and efficiency of the department's use and forward allocation of available resources.
- May include recommendations on the future use of resources.

This annexure provides responses to the portfolio committees' recommendations where they relate to the National Treasury.

A number of committees recommended making additional budget allocations available for certain programmes, sub-programmes or other budget items. Due to the constrained fiscal outlook, there is limited scope to do so. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities.

Portfolio Committee on Employment and Labour

The committee recommends engagement with the National Treasury to afford preferential procurement status by government departments and state-owned entities to supported employment enterprises. This should be concluded without delay and a follow up with the National Treasury should be made regarding the process of developing a preferential framework for government entities to ensure finalisation of this matter.

The Office of the Chief Procurement Officer in the National Treasury agrees with the recommendation and looks forward to the proposed engagement.

The funding challenges of Productivity South Africa should be addressed to enable it to execute its mandate, which includes assisting the turnaround of companies in distress.

The Department of Trade, Industry and Competition and the Unemployment Insurance Fund have not yet provided funding owed for programmes within Productivity South Africa. In line with the budgeting guidelines issued on 17 August 2020 and taking into account the country's serious fiscal constraints, the Department of Trade, Industry and Competition needs to reprioritise its budget in this regard. In addition, entities should ensure they collect the revenue due to them.

Portfolio Committee on Higher Education, Science and Technology

The Department of Higher Education and Training should engage the National Treasury with respect to the need for additional baseline funding to support the Community Education and Training (CET) programme to fulfil its mandate and to address infrastructure-related challenges.

The National Treasury agrees that the programme may be supported. In this regard, the department has been working to identify the funds that can be reprioritised within its budget.

Consideration for additional funding to the Council on Higher Education should be made, given that the confirmed R25 million has been withdrawn and the planned activities would have to be scaled down due to funding constraints.

The National Treasury agrees that the council needs additional funding to fulfil its expanded mandate. Over the 2021 medium-term expenditure framework (MTEF) period, the Department of Higher Education and Training will increase its transfer to the council by R60 million, made up of R16 million in 2021/22, R19 million in 2022/23 and R25 million in 2023/24. These funds will be used for goods and services to implement the mandate of the council.

The Minister of Higher Education, Science and Innovation should further engage with the South African Qualifications Authority (SAQA) so that a solution can be found to avoid the looming retrenchments of 71 employees. Furthermore, funding should be provided to the SAQA to enable it to buy time to implement its planned strategies that will sustain the entity going forward.

The Department of Higher Education and Training will reprioritise funds within its baseline to increase the transfer to SAQA by R5 million in 2021/22. This will offset the decline in SAQA revenue collections due to reduced activities because of COVID-19 restrictions.

The Minister of Higher Education, Science and Innovation further advises against the proposed funding reductions by the National Treasury, based on the key motive that economic transformation and growth are strategically linked to our investment in science, technology and innovation.

As noted at the beginning of this section, fiscal constraints are serious and reprioritisation is the main policy tool for making funding available. The National Treasury recognises the importance of science, technology and innovation and will continue to work with the Department of Science and Innovation and its entities to strengthen public-led research and development spending.

Portfolio Committee on Health

National and provincial treasuries should assist provincial departments in dealing with accruals and medico-legal claims which are depleting departments' budgets.

Over the 2021 MTEF period, the National Treasury has earmarked (allocated for a specific purpose) R73.1 million in the national Department of Health's budget to continue funding medico-legal experts and financial management support for provinces. Where medico-legal claims are merited, experts will assist provinces through mediation or litigation, including with actuarial evaluation of the claim. Separately, support is provided to strengthen general financial management in provinces, including verifying invoices and training officials in areas such as procurement.

Portfolio Committee on Women, Youth and Persons with Disabilities

The committee requests a briefing from the National Treasury on the financial implications of establishing the National Council on Gender-Based Violence and Femicide and the Gender-Based Violence and Femicide Fund.

The National Treasury awaits an invitation to brief the committee. Over the medium term, R5 million has been allocated per year for the council's operations.

The committee requests the National Treasury to provide a detailed report on the funding of the Sanitary Dignity Programme and any investigations in this regard.

In 2020/21, R209 million was allocated to this programme. Of this amount, R116.4 million was allocated to provincial departments of basic education, which implement the programme in five provinces, and the remaining R92.6 million was allocated to provincial departments of social development, which implement the programme in the other four provinces. Provincial departments of basic education and social development are best placed to provide more information on funding for these programmes.

Portfolio Committee on Tourism

The committee recommends that the National Treasury should reimburse the R1 billion surrendered to the national fiscus when the world imposed travel restrictions. This budget is critical in ensuring that the country is marketed to defend the market share and take advantage of the new norm in travel as influenced by the COVID-19 pandemic.

The tourism sector is an important contributor to economic recovery, GDP growth and job creation. As noted at the beginning of this section, however, there is little scope to provide additional funding at this time and departments need to identify areas of reprioritisation.

The committee recommends that the National Treasury should assist South African Tourism on compliance with the procurement processes on transactions conducted in foreign country offices.

The National Treasury agrees with this recommendation. It will include South African Tourism in the list of organs of state that are supported by the Office of the Chief Procurement Officer to assess the causes of non-compliance.

The committee recommends that the National Treasury assist South African Tourism with determining the process to be followed to maximise Tourism Marketing South Africa levy collection from the tourism businesses.

The National Treasury is willing to engage with South African Tourism to discuss ways to improve the collection of the tourism levy.

The committee recommends that the National Treasury provides ring-fenced funding to promote tourism development in villages, townships and small towns.

The Department of Tourism has reprioritised R540 million over the medium term to support black-owned and commercially viable enterprises to acquire shares in new or existing tourism enterprises. The beneficiaries are expected to include tourism enterprises from villages, townships and small towns.

Portfolio Committee on Defence and Military Veterans

The committee welcomes the provision of additional funds for the use of technology to augment border safeguarding. However, the Minister of Finance should consider an additional ring-fenced allocation to gradually increase the number of sub-units from 15 to at least 22 sub-units for border safeguarding by the South African National Defence Force (SANDF). This increase will assist the SANDF in countering cross-border crime and adhering to its legislated function to effect national border control.

Border security remains a government priority. Over the 2021 MTEF period, R3.2 billion is earmarked to safeguard borders. As noted earlier, there is little scope to provide additional funding at this time and fiscal constraints require departments to identify opportunities for reprioritisation.

The Minister of Finance should consider an additional ring-fenced allocation to fund the midlife upgrades of the South African Navy vessels in need of such upgrades. The upgrade of the South African Navy's frigate and submarine fleet is essential to ensure that the Navy maintains its patrol capabilities and thereby fulfil its constitutional requirement to ensure the territorial integrity of South Africa.

As noted at the beginning of this section, there is little scope for additional funding and departments are advised to identify areas of reprioritisation, including by improving their internal efficiency.

The Minister of Finance and the Minister of Defence and Military Veterans are encouraged to find means to salvage the Special Defence Account. This will be essential to ensure that the Department of Defence can continue to maintain critical capabilities and provide continued indirect support to the defence industry.

As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The Minister of Finance should indicate to the committee his willingness to fund, in addition to the Department of Defence's main allocation, a workable and humane exit mechanism for personnel over the medium term. This will assist the committee in its planned engagement with the department going forward.

The National Treasury agrees that the department requires a long-term plan to manage compensation spending pressures. In the 2019 Budget, the National Treasury provided funding to implement early retirement without penalties, as part of an effort to reduce the growth of public-service compensation. Unlike other departments, the Department of Defence chose not to participate in this initiative. As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The Standing Committee on the Auditor-General

The committee supports the retention of the total surplus of R190 million generated in 2019/20 as a general reserve.

The National Treasury will provide comments on the Auditor-General's 2019/20 surplus, in line with the Public Audit Act (2004), which the Auditor-General can consider when deciding on retention.

The committee notes with concern that the commitments made by the National Treasury during the consultations prior to the passing of the Public Audit Amendment Act (2018), with regard to the funding of the additional powers to the Auditor-General of South Africa (AGSA), have still not materialised. It was agreed then that the funding for this purpose (to the tune of R50 million) would be allocated to the AGSA during the 2019/20 financial year. The committee thus recommends that the National Treasury facilitates this outstanding payment with immediate effect.

The National Treasury will reprioritise R50 million within its 2020/21 budget in order for the Auditor-General to fund requirements related to the additional powers conferred by the act.

Considering the scourge of corruption that is ravaging our country, there might be an increase in the request for special audits. If a further consideration is given to our country's slow economic growth prospects and its financial impact thereof, thus, there is a high possibility of an increase in special audit requests and some special auditees may not be able to bear the full costs of their special audits. Therefore, the committee recommends that the entity should be given an additional allocation for the 2021/22 budget.

As noted at the beginning of this section, there is little scope to provide additional funding at this time and state institutions are advised to identify areas of reprioritisation within their budgets.

Portfolio Committee on Public Service and Administration

The Minister in the Presidency for Planning, Monitoring and Evaluation and the Minister of Finance should urgently resolve the budget shortfall on compensation of employees and critical surveys at Statistics South Africa so that crucial and quality statistics get generated for the country and government's benefit. If an ideal resolution cannot be found, the Minister for Planning, Monitoring and Evaluation is requested to escalate the matter to the Presidency.

The National Treasury continues to engage with Statistics South Africa on employee compensation matters. The National Treasury recently reviewed spending on provincial and district offices, which account for the bulk of the department's staff and personnel expenditure, and will discuss the findings with the department to help find efficiencies that may reduce funding pressures.

Portfolio Committee on Transport

The National Treasury should assist the department and its entities in strengthening their supply chain management (SCM) policies and compliance thereto, as well as providing training to staff on compliance with Public Finance Management Act (1999) provisions and Treasury Regulations and report to the committee on this assistance by the end of January 2021.

Accounting officers and executive authorities are responsible for managing their supply chains. In addition, the National Treasury provides support through toolkits to assess skills development areas, a certificate learnership programme, a curriculum for tertiary sector training on supply chain management, a recommended functional structure for finance officers and provincial treasuries, and a competency framework defining the knowledge and skills required.

The National Treasury should assist the department with providing clarity regarding the way forward with the Moloto Rail Corridor and report to the committee on this matter by the end of January 2021 (following the statement by the Minister of Transport in his July 2019 Budget Speech that the finalisation of the feasibility study would be prioritised compared to the 2020 responses by the Minister to other committee recommendations that the rail corridor is not feasible and that the funding would be directed towards the Moloto Road Programme).

The National Treasury's evaluation of the feasibility study concluded that a railway link through the Moloto Corridor route would be unaffordable and unsustainable for both commuters and the fiscus. However, the feasibility study did provide grounds for improvements to the road infrastructure and transport services along the route, which has led to accelerated work on the Moloto development corridor. A more detailed response has also been provided to the Select Committee on Appropriation in its recommendation on the 2019 Division of Revenue Amendment Bill.

The National Treasury should assist the department to address the liquidity and funding concerns raised by the AGSA specifically for the Road Accident Fund (RAF), South African National Roads Agency Limited (SANRAL), Passenger Rail Agency of South Africa (PRASA) and its subsidiaries, and report on this assistance by the end of January 2021.

The RAF faces several challenges that supersede its funding shortfall and require a range of interventions. This includes the implementation of the Road Accident Benefit Scheme Policy to shift the current system from a liability insurance scheme to one based on social security principles. The committee should reconsider the Road Accident Benefit Scheme Bill in order to implement a sustainable, affordable and equitable system of motor vehicle accident compensation.

PRASA has experienced governance challenges for a number of years. As at 31 December 2020, the entity had about R24 billion in unspent capital allocations intended to modernise its passenger rail services. Decisions by previous boards have left PRASA assets severely vandalised – a trend that worsened with the onset of the COVID-19 pandemic. A new permanent board is expected to bring about substantive changes within the entity.

Until the user-pay policy for roads is fully implemented, SANRAL will continue to have limited access to capital markets to fund its toll roads. Shifts in transfers to SANRAL in previous years ensured that it met its financial obligations, but compromised the quality of the non-toll network.

Recommendations of the Standing Committee on Appropriations on the 2020 MTBPS

The Minister of Finance ensures that the National Treasury provides a comprehensive analysis and details of all outstanding invoices per province and national government departments, as well as their maturity profile. This will allow the committee to consider all the information before it and report to the National Assembly in terms of section 4(4)(a) of the Money Bills Amendment Procedure and Related Matters Act, No 9 of 2009. The National Treasury admits in the 2020 MTBPS that these unpaid invoices present a serious risk to government finances, therefore the committee cannot allow this situation to escalate to the levels where Eskom finds itself in regarding the municipal debt. The committee is also of the view that if this problem is not addressed, it has a potential to compromise the credibility of government budget.

The National Treasury will provide the information as captured by national and provincial departments in the annual financial statements that are submitted to the Auditor-General.

The Minister of Finance ensures that the National Treasury provides the committee with the set of conditions that must be met for the provisional funding to be made available in 2021/22 to build the Tygerberg Regional Hospital and Klipfontein Hospital in the Western Cape.

The National Treasury agrees with the recommendation and will provide the information directly to the committee.

Report of the Standing and Select Committees on Finance on the 2020 Revised Fiscal Framework

The special adjustments budget does not provide enough clarity on infrastructure development projects – and this is utterly crucial to our economic recovery. The National Treasury needs to report on this at its next quarterly briefing. The Appropriations Committee also needs to consider taking this forward.

A detailed pipeline of bankable projects is shared in the 2020 *Budget Review*. The National Treasury has been working with the Development Bank of Southern Africa (DBSA) and the Department of Public Works and Infrastructure to operationalise the Infrastructure Fund. A briefing should ideally be provided by all three parties, and in this regard, an opportunity to brief the committee will be welcome.

We recommend that the Minister of Finance reports quarterly on the effectiveness of the National Treasury's debt management strategies that would ensure that the level of debt stabilises over the medium term and avoids a sovereign debt crisis.

The National Treasury welcomes this recommendation and will provide quarterly reports. It publishes a public debt management report every year.

The Minister of Finance should brief the committee on progress made with the development of the State Bank.

The National Treasury will endeavour to brief the committee. There are currently several state banks in existence, often with overlapping mandates. The key challenge is to rationalise and consolidate these banks, and ensure they are able to generate sufficient revenue to fund their operations without relying on government funding. The National Treasury is also considering how best to address market failures and gaps in the current banking system, given the need to prioritise financial inclusion.

The committee notes that the National Treasury is working on the details of the R100 billion set aside as one of the economic support measures for job creation, to ensure proper processes are in place to roll out projects over the medium term. The National Treasury should provide the committee with more detail regarding how the money will be spent, in which sectors, and what type of jobs will be created.

The Presidency oversees the programme and reports are consolidated therein. Departments will also submit spending and performance information in line with requirements of the National Treasury regulations.

The committee requires the National Treasury to brief it on why "zero-based budgeting" is being proposed, how will it be implemented and what its implications are.

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience. Since June 2020, the National Treasury has been reviewing government spending to improve efficiency. More than 30 spending reviews across all functions have been conducted to understand service-delivery outcomes and how these might change under different scenarios. These reviews will be used to inform the development of zero-based budgeting.

Report of the Standing and Select Committees on Finance on the 2020 second Revised Fiscal Framework

While the committee notes that the assigning of the high-demand digital spectrum and reducing the cost of broadband and other costs of doing business forms part of the measures of the Economic Reconstruction and Recovery Plan, it is still concerned at the slow pace of the auctioning of the digital spectrum and persistent high costs of broadband to consumers. The committee reiterates that the National Treasury needs to engage with the Department of Telecommunications and Postal Services on this. Given the desperate need for revenue, the committee urges government to accelerate the auctioning of the digital spectrum.

The National Treasury agrees with the committee and engagements are ongoing. In the 2020 MTBPS, government allocated an additional R84.7 million to the Independent Communications Authority of South Africa in 2020/21 for the licensing of high-demand spectrum. The amount of revenue collected will depend on the design of the auction process and how mobile operators respond.

The committee reiterates its disappointment that there has only been 8 per cent take up of the loan guarantee scheme of R200 billion. The committee requires the National Treasury to report to it on its renegotiation of the lending criteria with the participating commercial banks. The committee recommends that the Minister of Finance considers the expansion of this loan guarantee scheme to directly include development financial institutions being able to provide liquidity to projects that they are directly funding.

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience.

The committee reiterates its view expressed in its special adjustment budget report that: "Government should engage with all stakeholders, including the private sector on how to unlock domestic investment through impact investments and Regulation 28 of the Pension Funds Act [1956]. NT needs to consider creating the necessary regulatory mechanisms to ensure increased pension fund investments directly into infrastructure projects including real estate, which can unlock capital that currently is not finding its way into projects. The majority in the Committee believes there should be more engagement on the feasibility of prescribing assets for pension funds and will request a presentation by the Financial Sector Conduct Authority (FSCA) and NT on this when the FSCA releases the policy paper as announced by the Minister of Finance in his post-adjustment budget briefing to the Committee. National Treasury should *also consider how pension fund members can leverage their retirement fund assets to improve their personal financial circumstances..."*

Alongside the 2020 MTBPS, the National Treasury released an explanatory note on financial sector updates including the review of Regulation 28 – to allow retirement funds to invest more in infrastructure – and, under certain conditions, early access to retirement savings. Annexure F provides an update on these matters.

The committee requires the National Treasury (and SARS) to update it in the 2021 Budget Review *on the developments in resolving the impasse on the taxing rights of countries when it comes to income derived from digital activities. The committee is aware that South Africa is one of the few countries that are already collecting VAT from the digital economy and commends this. The committee recommends that while the National Treasury participates in the Organisation for Economic Co-operation and Development (OECD), it should work in collaboration with the African Tax Administration Forum on the digital tax framework.*

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience. As a member of the Steering Group of the Inclusive Framework on Base Erosion and Profit Shifting, the African Tax Administration Forum and G24, South Africa is actively involved in finding a consensus-based solution on addressing the income tax challenges arising from the digitalisation of the economy.

Recommendations of the Standing Committee on Appropriations on the Adjustments Appropriation Bill

That the Minister of Finance ensures that the National Treasury provides a comprehensive report on how it plans to fund infrastructure spending aimed at reconstruction, rehabilitating and maintaining social and economic infrastructure such as schools, roads and other government infrastructure assets post COVID-19. The committee is concerned that a lack of a detailed and proper infrastructure recovery plan will lead government to the same path it is currently experiencing with Eskom infrastructure maintenance-related challenges. This plan should signal the National Treasury's commitment on funding public infrastructure for reconstruction, maintenance and rehabilitation, while also outlining potential future costs escalations due to delays in funding these key government infrastructure activities and estimated costs overruns of delayed infrastructure projects. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

Government has radically restructured its infrastructure delivery model. A new institution, Infrastructure South Africa, has been established by Cabinet to oversee and coordinate public infrastructure delivery. In February 2020, the Minister of Finance announced that government is expected to spend R815 billion on infrastructure over the next three years. Of this, spending on economic infrastructure, mainly by state-owned companies, accounted for 75.1 per cent, while spending on social infrastructure accounted for 20.9 per cent of the total.

The Infrastructure Fund is a key element of the economic recovery plan. It aims to diversify government funding sources available for infrastructure by combining capital from the public and private sectors, development finance institutions and multilateral development banks. It will harness skills and capacity from the private sector to improve the quality of planning, enhance the speed and quality of spending, and reduce the cost of infrastructure. This in turn will contribute to the growth of the economy and to increased productivity and employment creation.

In line with the pronouncements made by the President on infrastructure investments for both economic growth stimulation and job creation, the Minister of Finance should ensure that the National Treasury provides a comprehensive report on how this bill responds to the pronouncements made by the

President on infrastructure investment. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The National Treasury can submit a report in this regard. Government has allocated a total of R625 million to the DBSA, the Presidential Infrastructure Coordinating Commission and the Government Technical Advisory Centre to help government institutions plan and package infrastructure projects for submission to the National Treasury for funding. Projects that are viable and shown to grow the economy, create jobs and crowd in private investment will be allocated funding through the R100 billion that has been set aside for blended infrastructure projects through the Infrastructure Fund.

The Minister of Finance should ensure that stringent measures are put in place to ensure that procurement processes are transparent and credible, including the attainment of value for money.

The National Treasury welcomes this recommendation and will provide Parliament with a detailed report on these measures at its earliest convenience.

Recommendations of the Standing Committee on Appropriations on the second Adjustments Appropriation Bill

That the Minister of Finance ensures that the National Treasury reports to the committee on the disbursement and utilisation of the R12.6 billion proposed allocation for the presidential employment interventions. The committee wants to exercise its oversight function on this expenditure and the number of employment opportunities it creates for South Africans who have been hit hard by the COVID-19 pandemic.

The National Treasury agrees with this recommendation and has submitted a spreadsheet prepared by the Presidency alongside the 2021 Budget.

That the Minister of Finance ensures that the National Treasury provides a detailed report on the uptake of the Government Loan Guarantee Scheme, the banks that have provided loans to businesses and the list of the companies who have benefited from the scheme. The committee wants to understand the overall framework that governs the loan guarantee scheme and examine whether small, medium and micro enterprises are benefiting from the scheme.

The National Treasury will provide a detailed report to the committee.

That the Minister of Finance ensures that the Chief Procurement Officer provides a comprehensive report on government high spending areas like infrastructure, information communication and technology. The committee wants to understand how much government is paying in comparison with the private sector for similar services.

The National Treasury can provide spending reports as captured by departments in public financial management systems. The procurement decisions made by accounting officers determine unit costs for a service.

That the Minister of Finance should consider allocating additional funding to Council for Scientific and Industrial Research (CSIR) to enable the entity to carry out its important legislative mandate.

At the time of the 2020 Budget, the National Treasury allocated an additional R220 million over the 2020 MTEF period for various infrastructure projects. These include facilities that will strengthen the CSIR's ability to help local industries improve their competitiveness by providing access to specialised skills and facilities. As noted earlier, there is limited scope for additional funding due to fiscal constraints. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities.

While reluctantly agreeing to the R10.5 billion allocation to South African Airways (SAA), the committee strongly recommends that the Minister of Finance ensures that the National Treasury reviews in the 2021 Appropriations Bill the sources from which this money has been drawn and find alternative sources that do not undermine crucial service delivery and development programmes. The committee will pay very keen attention to this in processing the 2021 Appropriations Bill.

The National Treasury broadly agrees with the committee and alternatives will be considered where necessary. The R10.5 billion allocation to SAA does not affect allocations over the 2021 MTEF period as it was shifted from funds allocated in 2020/21.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

When the Minister of Finance gazettes the conditional grant frameworks in terms of section 16 of the 2020 Division of Revenue Act, the adjustments of certain grant frameworks proposed to the committee, to expedite the release of the much-needed funds for expenditure to strengthen the implementation of the lockdown regulations and rapid response to the COVID-19 pandemic, should be included. This will be in addition to the provisions which have already been activated to respond to the pandemic in terms of the 2019 Division of Revenue Act.

The National Treasury supports the recommendation. These additional conditions will enable the funds to be used to respond to COVID-19 rapidly rather than waiting for their inclusion in the Division of Revenue Amendment Bill. The updated frameworks were gazetted on 3 July 2020.

While the committee welcomes the expansion of access to early childhood development services, which will reach almost 700 000 children under the age of four years in 2022/23, and the additional R1.4 billion for the early childhood development grant *to increase the subsidy per child from R15 per day to R17 per day in 2020/21, increasing to R18.57 per day by 2022/23, the committee is of the view that this is a crucial conditional grant for early childhood development and therefore recommends that the Minister of Finance, together with the Minister of Social Development and provincial treasuries, ensure that proper mechanisms are developed and put in place to comply with the grant framework, improve the grant expenditure and grant performance, given the 2019/20 grant performance picture demonstrated by some provinces.*

The National Treasury supports this recommendation. The Department of Social Development is responsible for administering this grant and ensuring that its conditions are met. The National Treasury will continue to work with the department and provincial treasuries to oversee grant spending. This recommendation is also referred to the Minister of Social Development and provincial treasuries.

Due to the importance of education in our country which aims to empower citizens to fight unemployment, inequalities and poverty as well as the need to address education infrastructure backlogs in certain areas, especially in schools where the state of infrastructure poses a danger to pupils, the National Treasury should review the baseline reduction of the education infrastructure grant *and the* school infrastructure backlogs grant *for the MTEF period and, furthermore, the* national electrification programme grants *should also be considered based on their evidence and merits.*

To manage the effect on services, the amount reduced from each grant considered past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. It is anticipated that, although these reductions might delay the start of new infrastructure projects this year, provinces and municipalities will be able to implement existing projects with the remaining allocation.

Both the National Treasury and the Department of Cooperative Governance, together with provincial treasuries and the South African Local Government Association (SALGA), should intensify efforts to support local government interventions to improve revenue collection, such as the pilot project to retrofit smart meters, and report the progress to Parliament in the next budget cycle; as this requires sector committees also to play their oversight role. Furthermore, sound debt recovery strategies and mechanisms are required to improve revenue collection.

The National Treasury agrees with this recommendation. Managing municipal revenue is a shared responsibility. Government is strengthening national coordination through the single and integrated revenue management framework, which improves collaboration between the National Treasury and the Department of Cooperative Governance as they enter a municipality. The framework will assist with planning and budgeting, programme design and implementation. The National Treasury has also placed revenue advisors at each provincial treasury. These advisors will help capacitate the provincial treasuries on revenue initiatives for municipalities and assist municipalities to address inefficiencies in revenue management.

In addition, a Multidisciplinary Revenue Committee has been established to strengthen collaboration and address fragmentation on revenue issues. The committee includes the National Treasury, the Department of Cooperative Governance, the Department of Public Enterprises, the Department of Mineral Resources and Energy, the Department of Public Works and Infrastructure, the Department of Water and Sanitation, Eskom, SALGA and the National Energy Regulator of South Africa. The committee will focus on four recommendations that Cabinet approved in 2018: a national campaign to pay for services, the introduction of smart meters for electricity and water, the restructuring of arrear debt for Eskom and water services, and the development of a process to deal with defaulting municipalities. In addition, it will proactively address shortfalls within municipal revenues.

The National Treasury, together with the Department of Cooperative Governance, provincial treasuries and SALGA, should ensure that municipalities develop and provide proper plans and mechanisms in line with the COVID-19 interventions for the additional R20 billion allocation proposed by government for municipalities, to avoid wasteful and fruitless expenditure, and such mechanisms should ensure that consequence management prevails wherever there is corruption and mismanagement of funds. The committee believes that this will go a long way in addressing issues such as additional responsibilities posed by COVID-19 regulations, unemployment, irrecoverable debts and budget shortfalls.

The National Treasury agrees that municipalities should avoid wasteful and fruitless expenditure. The COVID-19 pandemic required flexibility to adapt to rapidly evolving circumstances. Of the R20 billion provided for municipalities, R11 billion was added through the local government equitable share to allow municipalities discretion to respond to local conditions. The remaining funds were provided through existing conditional grants with specific conditions. Additional conditions were added to some grants to allow for spending in response to COVID-19.

With regard to the suspension of the public transport network grant *for Buffalo City metropolitan municipality, Mbombela and Msunduzi local municipalities, and given the fact that this is a much needed programme to improve public transport networks, address commuter inequalities and reduce road fatalities; the Minister of Finance, together with the Minister of Cooperative Governance and Traditional Affairs and the Minister of Transport, relevant provincial treasuries and SALGA should take drastic measures to ensure that adequate support and capacity development interventions are tailored to resolve the matter speedily and ensure that, once restored, the conditional grant achieves its intended outcomes. The committee will continue to monitor progress in this regard.*

The National Treasury agrees with this recommendation and will continue supporting the cities to realise the objectives of the grant.

With regard to the baseline reduction of the provincial roads maintenance grant*, the Minister of Finance and the Minister of Transport should thoroughly assess and consider the service delivery implications, given the poor status of road maintenance in some provinces and the level of road carnage which ultimately cost the state a lot of money, before the baseline reduction of R2.8 billion over the medium term is effected.*

To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. This grant is intended to supplement transfers from the provincial equitable share to fund the maintenance and upgrading of provincial roads. Provinces are expected to fund the construction of new roads from their own budgets.

The Department of Transport should expedite the finalisation of the transport subsidy policy which will include improving public transport for rural commuters and address inequalities. On the other hand, the National Treasury should support government efforts to intensify rural development intervention programmes to ensure that public service centres are geared towards local people, particularly townships and poor rural communities. The sector committees should monitor progress on the policy development front, while the Select Committee on Appropriations will monitor budget implementation once such a policy is concluded.

This recommendation has been referred to the Minister of Transport.

The committee notes the views suggesting that the local equitable share of 9 per cent of the nationally raised revenue is not cost-reflective and, therefore, not adequate to fund local government functions. The committee is of the view that SALGA, together with the National Treasury, the Department of Cooperative Governance and the Financial and Fiscal Commission (FFC), should work together to consider scientific evidence available to help review the local government equitable share formula in a fair and equitable manner. The committee will continue to monitor progress in this regard.

This recommendation is in effect. The National Treasury, together with the other specified departments and entities, is part of a standing technical committee that regularly discusses issues relating to the local government equitable share. In 2013/14, a new equitable share formula was introduced based on work by committee members. This formula is updated annually through the committee.

While the committee understands the need for budget reprioritisation over the 2020 MTEF, due to the current economic outlook, the committee is of the firm view that these budget cuts should not compromise provincial and local government frontline service delivery points, especially where more human capital is required, and personnel at lower levels should continue to be protected.

The National Treasury notes this recommendation. It is important that service delivery implications are considered alongside the need to balance the fiscal framework. Reductions to provincial and local government conditional grants were necessary to meet urgent spending needs related to the COVID-19 pandemic. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

Given the underexpenditure and underperformance of certain conditional grants such as the human papillomavirus grant*; the* maths, science and technology grant*; the* learners with profound intellectual disabilities grant*; the* title deeds restoration grant; *and the* comprehensive agricultural support programme grant*; as reported during the in-year monitoring for 2019/20, and the committee's firm view that these are very important grants to improve the socioeconomic situations of the vulnerable and* *the poor; the Ministers of finance, health, basic education, human settlements and agriculture should ensure that concrete steps are taken to address challenges which impact grant expenditures and performance intending to improve service delivery and ensure that there is full compliance with each conditional grant framework.*

This recommendation has been referred to the Minister of Agriculture, Land Reform and Rural Development; the Minister of Basic Education; the Minister of Health; and the Minister of Human Settlements, Water and Sanitation.

The Minister of Finance should ensure that additional allocations for drought relief for all provinces are considered during the 2020 adjustments budget, in light of the fact that the Minister of Cooperative Governance and Traditional Affairs declared South Africa a disaster-drought area on 26 February 2020.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

Government must improve and strengthen its financial management systems and internal controls units; appoint proper audit committees; and design and develop focused, properly aligned monitoring and evaluation systems with credible strategic plans across government to ensure that allocated resources are spent effectively and strictly according to the framework of the Division of Revenue Amendment Bill [2020] in order to prevent wasteful and fruitless expenditure, irregularities and corruption with COVID-19 relief funds. Parliament, provincial legislatures and municipal councils should monitor the implementation through rigorous oversight and in-year monitoring programmes.

The National Treasury agrees with this recommendation. Provincial and municipal spending related to COVID-19 is monitored through a range of mechanisms. The National Treasury also issued additional regulatory requirements in May 2020 to balance the need for flexibility with internal controls and risk management. Ultimately, municipal accounting officers are accountable for how funds are used. Municipalities are responsible for informing their communities of COVID-19-related spending and communities can monitor municipalities to ensure that the funds are spent as intended.

The Department of Basic Education (DBE), together with provincial education departments, should address the issues around the shortage of teachers due to co-morbidities and the shortage of personal protective equipment as this puts the lives of learners and teachers at high risk. Furthermore, the DBE and provincial education departments should expedite the process of implementing proper permanent structures for water provision in schools, given that the trucking system is an expensive option.

This recommendation has been referred to the Minister of Basic Education and provincial departments of education.

The National Disaster Management Centre, together with the provincial departments of agriculture, should expedite the finalisation of research to establish the appropriate figure for the amounts required for national disasters, especially for provinces that are severely affected. Such relief will protect food security and jobs, given the state of national disaster declared by government in February this year. The committee also believes that more allocations are required to be earmarked for the comprehensive agricultural support programme grant *to further enhance food security and jobs for poor and vulnerable South Africans, especially during the COVID-19 pandemic.*

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and the Minister of Agriculture, Land Reform and Rural Development.

With regard to the additional R3.4 billion for the COVID-19 component of the HIV, tuberculosis, malaria and community outreach grant*, the committee acknowledges that provincial governments have a prerogative to decide how to spend the allocated funds; however, the National Treasury, together with the Department of Health, should ensure that these funds are spent according to the requirements of the Division of Revenue Amendment Bill [2020] framework and ensure that section 38(1)(b) and (c) of the Public Finance Management Act (1999), and other proper governance measures are properly implemented by provincial health departments to safeguard the management of the allocation. Provinces should further expedite the process of determining appropriate criteria to reprioritise the R20 billion within their allocated resources without disadvantaging the most rural and poor areas.*

This recommendation has been referred to the Minister of Health.

The National Treasury, together with the Department of Health, should ensure that adequate resources are made available to expedite the implementation of national health insurance (NHI) to ensure that the implementation of the much needed universal access to healthcare services is achieved for the benefit of the poor and vulnerable, especially during the COVID-19 pandemic.

This recommendation has been referred to the Minister of Health.

While acknowledging the importance of fighting the COVID-19 pandemic successfully, the committee is also of the view that National Treasury should ensure that a balanced approach is implemented, wherein efforts tailored to fight COVID-19 do not undermine the much needed economic resuscitation, social transformation interventions and goals and targets of the National Development Plan. Reprioritisation of funds should not be to the detriment of core business and frontline service delivery and programmes aimed at economic recovery, such as infrastructure projects, which will ultimately compromise government efforts to resuscitate the economy.

The National Treasury agrees with this recommendation and looks forward to engaging with the committee on the details of measures to support economic recovery and service delivery.

The National Treasury, the Department of Cooperative Governance and SALGA should ensure that municipalities implement consequence management and hold those who have transgressed accountable and recover any funds lost as a result of corruption before and during the COVID-19 pandemic. They should further ensure that proper governance and financial control systems, as well as effective supply chain management are in place to prevent financial mismanagement and wasteful and fruitless expenditure and to safeguard the additional allocations to local government, while at the same time improving municipal audit outcomes. This should assist municipalities to provide personal protective equipment and ensure the sanitisation of taxi ranks. The extraction of political and administrative accountability as part of enforcing consequence management for municipalities by SALGA should be supported.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury, the Department of Cooperative Governance and SALGA should work together to strengthen the level of support given to municipalities who are struggling to address revenue shortfalls as a result of the COVID-19 pandemic; and the circulars issued by the National Treasury as standard guidelines for municipal procurement and reporting for COVID-19 should be enforced to ensure that proper management of expenditure for COVID-19 is achieved. Furthermore, the allocation for implementing the district development model, to ensure alignment and avoid duplication across spheres, should be clearly reflected in the budget.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury, the Department of Cooperative Governance and SALGA should ensure that all municipalities owing Eskom settle their financial obligations and all government departments owing municipalities also settle their obligations to assist in addressing municipal revenue shortfalls as a result of COVID-19. They should further ensure that debt collection and credit control mechanisms are properly implemented.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury should conduct proper impact assessment to identify and address the root causes of underspending before taking away or reprioritising resources from underspending programmes. The committee believes that this can only be used as a last resort as it negatively affects the poorer communities who depend on government services at a local government level. Different types of constructive interventions, including addressing the root causes of underexpenditure, should be identified and implemented to support struggling municipalities to ensure effective and efficient spending, and ultimately, value for money.

The National Treasury supports this recommendation. Two of the main reasons for underspending are poor project preparation and frequent changes in the authorities. The budget allocates substantial resources to build capacity. Withholding funds is always implemented as a last resort.

The National Treasury, the Department of Public Service and Administration and SALGA should ensure that wage negotiations are conducted fairly; and urgently resolve all labour-related matters without creating instability, especially on local government level and in frontline services, which will compromise the much-needed delivery of basic services to poor and vulnerable South Africans during this time of COVID-19.

This recommendation has been referred to the Minister of Public Service and Administration and SALGA.

The Minister of Finance and the National Treasury should ensure that adequate consultation is conducted with both the provincial and local government spheres, as part of improving intergovernmental relations, prior to any reprioritisation of funds. The committee will monitor this in future and require the National Treasury to report on the extent of its consultation with the provinces and local government on budgets.

The National Treasury consults extensively with provinces, municipalities and SALGA through the Budget Council, Budget Forum and other engagements.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Second Amendment Bill (2020)

The Minister of Finance should ensure that the National Treasury gazettes the corrections to the following conditional grant frameworks, as set out in the bill in accordance with section 16(4) of the Division of Revenue Act (2020) as soon as possible:

- *The health facility revitalisation component of the* NHI indirect grant
- *The framework of the* rural roads asset management systems grant
- *Allocations for ring-fenced sport projects in the* municipal infrastructure grant*.*

These corrections were gazetted shortly after the bill was tabled.

The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs, should conduct a service delivery impact assessment emanating from the proposed budget cuts in local and provincial government to raise R10.5 billion for the SAA business rescue plan. This should demonstrate how these cuts will affect the implementation of the National Development Plan and the medium-term strategic framework, and poor and vulnerable South Africans. This report should include measures taken by government to mitigate the possible impact on the poor and vulnerable. Furthermore, the Minister of Finance, together with Cabinet, should ensure that appropriate measures are taken to prevent the movement of funds from already distressed and dysfunctional municipalities and infrastructure programmes to bail out mismanaged state-owned entities at the expense of service delivery. The movement of funds should not infringe on the constitutional rights of poor and vulnerable South Africans. The National Treasury should report on this during the 2021 Budget tabling.

The National Treasury agrees that it is important to consider the effect of reductions on service delivery. The recommendation has been referred to the sector departments that are administering the grants as the assessment of service delivery falls within their mandate. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

While the committee welcomes the additional R1.5 billion in response to job losses resulting from the COVID-19 pandemic, allocated as part of the stimulus package to create job opportunities through labour intensive projects; the committee is of the view that the culture of poor planning, the lack of clear reporting frameworks and of timeous expenditure in such initiatives should be urgently addressed by government to avoid a repeat of the challenges reported in the Jobs Fund. The committee is of the view that lessons learned from the nine years of implementing the Jobs Fund can assist to improve the work of the Presidential Employment Initiative to achieve better results. Parliament and provincial legislatures will continue to monitor progress.

The National Treasury agrees with this recommendation. The Presidency has developed reporting requirements for this programme and requires monthly reporting. Moreover, funding was provided for projects that were ready for implementation, based on the strength of the application submitted.

In order to prevent wasteful and fruitless expenditure, the Minister of Finance, together with the Minister of Basic Education and the affected provincial departments of education and provincial treasuries, should ensure that concrete steps are taken to build and demonstrate the required capacity to spend the proposed addition of R7 billion to the provincial equitable share to employ education assistants at schools and to save governing body posts, as well as the R500 million added for food relief in response to COVID-19. These steps should include developing clear systems to monitor and evaluate such expenditure to ensure that unnecessary problems are eliminated during food parcel distribution. The National Treasury should report on this during the tabling of the 2021 Budget.

The National Treasury agrees with this recommendation. The Presidency has developed reporting requirements for this programme and requires monthly reporting.

With regards to the COVID-19 economic relief package, the committee is mindful that the provincial sphere has committed to reprioritise R20 billion from its own provincial equitable share to the COVID-19 response. However, the committee strongly recommends that all healthcare and frontline services budgets should be protected and provincial treasuries should put in place clear monitoring and evaluation mechanisms for expenditure and performance, to ensure that mismanagement of funds is prevented at all times. Parliament, together with provincial legislatures, should monitor progress through effective oversight and in-year monitoring. The National Treasury should report on this during the tabling of the 2021 Budget.

The National Treasury welcomes this recommendation and has referred it to the provincial treasuries.

The Minister of Finance should ensure that the National Treasury approves the roll-overs for the following provincial and local government grants contained in the bill for all projects near completion timeously, in accordance with the necessary financial management prescripts:

- *The* school infrastructure backlogs grant *for the completion of projects that are part of the sanitation appropriate for education initiative earmarked for Eastern Cape, KwaZulu-Natal and Limpopo schools*
- *The* urban settlements development grant *to fund commitments for bulk infrastructure-related projects in the Nelson Mandela Bay metropolitan municipality*
- *The* public transport network grant *to continue with the roll-out of integrated public transport network infrastructure in the Nelson Mandela Bay metropolitan municipality*
- *The* regional bulk infrastructure grant *for drought and COVID-19 water and sanitation interventions nationwide.*

The National Treasury only recommends rollovers where there is compliance with the legal regulations and practice notes. The rollovers mentioned above were approved before the Division of Revenue Second Amendment Bill was tabled.

While the committee has noted the proposed reduction of R25.3 billion as part of the overall wage bill reduction of R160 billion to ensure fiscal consolidation and economic reconstruction and recovery; the committee recommends that the issue of the public wage bill should be discussed and concluded fairly and amicably in the Public Service Co-ordinating Bargaining Council, as the most appropriate platform; and that such reductions should not affect the frontline service delivery workers, especially in poor municipalities and the departments of health, education and social development.

The National Treasury notes this recommendation and it has been forwarded to the Minister of Public Service and Administration.

While the allocation of R12 million, reprioritised into the indirect component of the water services infrastructure grant*, for the implementation of various water services interventions, is a step in the right direction; the committee recommends that more resources should be found for the Department of Water and Sanitation and the Department of Agriculture, Rural Development and Land Reform to address the persistent water crisis and drought affecting some provinces, in order to protect food security.*

Both water and agricultural grants can be used to respond to drought. Additional funding can be allocated through disaster grants once a disaster is declared. As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The finalisation of the draft Public Procurement Bill should be expedited to ensure that the majority of South Africans participate in the economic mainstream. The Minister of Finance, together with the Ministers of economic development; trade, industry and competition; and employment and labour, should address the economic barriers, social inequality, and societal polarisation by adopting a localised product value chain approach. The expression of this approach should also be found in the incentive frameworks of both provincial and local conditional grants as hard conditions to permit procurement of goods only if they are made or assembled locally within the South African borders; to stimulate the domestic economy and inclusive growth and encourage local opportunities while taking international trade agreements into consideration.

The economic recovery plan announced by the President in October 2020 largely addresses this recommendation.

The committee appeals to the National Treasury, the Department of Cooperative Governance and Traditional Affairs and SALGA to continue to support municipalities to resolve the Eskom and water boards debt issue; and to ensure that the matter of provincial and national departments owing municipalities are also expeditiously addressed to bolster municipal finances, as opposed to implementing budget cuts in local government. They should further ensure that municipalities create credible credit control measures, debt management policies and effective revenue collection strategies; and should provide a progress report in this regard during the tabling of the 2021 Budget.

The National Treasury agrees with this recommendation. Managing municipal revenue is a shared responsibility. Government is strengthening national coordination through the single and integrated revenue management framework, which improves collaboration between the National Treasury and the Department of Cooperative Governance as they enter a municipality. The framework will assist with planning and budgeting, programme design and implementation. The National Treasury has also placed revenue advisors at each provincial treasury. These advisors will help capacitate the provincial treasuries on revenue initiatives for municipalities and assist municipalities to address inefficiencies in revenue management.

The Minister of Finance and Cabinet should take concrete steps to prevent the mismanagement of COVID-19 funds and to ensure that consequence management is enforced for corruption and malfeasance during personal protective equipment procurement processes. The National Treasury, together with the Department of Health, should table a detailed COVID-19 expenditure and performance report in Parliament, including how the remaining funds will be appropriated. The Minister of Finance and other Ministers should also ensure that the National Treasury and other departments avail the necessary performance information when requested by oversight and government advisory bodies, such as the FFC, to conduct impact assessments.

The National Treasury agrees that this information should be provided when requested for oversight.

The National Treasury issued additional requirements in a May 2020 circular to balance the need for flexibility with sufficient internal controls and risk management in responding to COVID-19. Information on companies that were awarded the personal protective equipment tenders has been published on the National Treasury website.

The Ministers of social development and basic education, together with the Minister of Finance, should ensure that proper financial management mechanisms are put in place to prevent wastage and fruitless expenditure of the funds allocated to early childhood development (R496 million) and school sanitation (R475 million); and further explore ways to retain the long term unemployment grant of R350 for unemployed individuals between the ages of 18 and 59. This could provide a safety net for the poorest of the poor, even though it will never be enough to cater for all, considering the current economic situation across South Africa.

The National Treasury agrees that the funds should be used efficiently. The Presidency has developed reporting requirements for this programme and requires monthly reporting.

Given the current economic situation, with declining revenue collection and a rising budget deficit, the committee recommends that government should continue to make use of all legislative measures at its disposal to fight corruption, including recovering monies which have been lost as a result of wrongdoing, whether in state capture, personal protective equipment procurement projects or government officials who contravene public finance management and supply chain management prescripts.

The National Treasury agrees with the recommendation.

While the committee appreciates that COVID-19 challenges led to the MTBPS being introduced in Parliament a week later, it has meant that the usual tight time frame for processing the bill was *intensified this year, and the committee and the provincial legislatures would have wanted to give more rigorous attention to the bill. We urge the Minister of Finance to introduce the MTBPS timeously in future. The committee believes that the House Chairpersons of both the National Assembly and the National Council of Provinces need to look into the possibilities of giving the council more time and space to process the MTBPS in future.*

The National Treasury notes this concern.

While recognising the specific time constraints this year, and other stresses of the National Treasury, the committee believes that the National Treasury's responses to the concerns of the provincial legislatures were inadequate and recommends that it provide more effective responses in future.

The National Treasury notes the recommendation. It responds within its mandate.

The committee believes that the reviews of the provincial and local government equitable shares need to be finalised urgently, as it has been on the agenda for a long time and numerous recommendations have repeatedly been made by the committee, SALGA, the FFC and other stakeholders. The matter is now even more urgent, given the impact of COVID-19 on the provinces and, particularly local government, whose finances are in a perilous state anyway. These reviews need to involve all three spheres of government and other relevant stakeholders, as well as independent technical experts.

The National Treasury, together with the Department of Cooperative Governance, SALGA and the FFC, is part of a standing technical committee that regularly discusses issues relating to the local government equitable share. In 2013/14, a new local equitable share formula was introduced based on work by committee members. This formula is updated annually through the committee. In December 2020, the Budget Forum agreed that all matters relating to the local government fiscal framework will be managed collaboratively between the National Treasury, the department and SALGA.

The National Treasury, provincial treasuries, the FFC, other national departments and independent technical experts are reviewing the provincial equitable share and will publish the results as soon as they are available.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Bill (2020)

That the Minister of Finance and the Minister of Transport provide a report on the possible impact of the R2.8 billion reductions on the provincial roads maintenance grant*. Considering the poor state of the provincial road network, the Ministers must provide the committee with alternative viable solutions on how to fund the maintenance of the provincial road network in all the provinces affected by these cuts, the poor provinces in particular.*

The grant is intended to supplement transfers from the provincial equitable share to fund the maintenance and upgrading of provincial roads. Provinces are expected to fund the construction of new roads from their own budgets.

That the Minister of Finance and Minister of Basic Education provide a report on the implications of the R1.9 billion reductions in the education infrastructure grant*. The committee views this grant as critical in providing education infrastructure in particular to the previously disadvantaged communities. Each Ministry should report the rationale and implications of the R1.9 billion reductions in this grant given its importance in providing education infrastructure.*

To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. The *education infrastructure grant* was allocated R35 billion, and grows at an average annual rate of 5.2 per cent over the 2020 MTEF period, including the reductions. While these reductions will delay the delivery of infrastructure projects, all planned projects are still expected to be completed.

The Minister of Basic Education should report on the implications of these budget reductions on the education infrastructure grant *and provide a list of the affected provinces and the list of the education infrastructure projects affected.*

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Basic Education provides a comprehensive report on the impact of the R123 million reduction over the MTEF period on the school infrastructure backlogs grant *which is meant for the eradication and replacement of inappropriate schools and related school furniture.*

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Finance, the Minister of Transport, the Minster of Cooperative Government and Traditional Affairs, SALGA, and the Msunduzi, Buffalo City, and Mbombela municipalities should report on the possible financial and service delivery implications resulting from the R4.3 billion reductions in the public transport network grant *over the MTEF period. The aforementioned parties should report to the committee as follows:*

The Minister of Finance should demonstrate how, over the years, this grant has underperformed in these affected municipalities, what has been the expenditure patterns versus infrastructure investment as required by the grant framework. The Minister should also provide demonstrable evidence that the National Treasury has over time assisted these affected cities without success.

In 2019/20, Mbombela, Buffalo City and Msunduzi were suspended from the *public transport network grant*. This decision was made on the basis of consistent underperformance. Although the grant was initiated in 2006/07, the three cities have not moved past the planning stage of their public transport projects. By the end of 2019/20, about R861 million had been allocated to Buffalo City, R1.7 billion to Mbombela and R1.4 billion to Msunduzi under this grant. To date, the cities have not delivered any public transport services with these funds.

The Department of Transport is responsible for administering this grant, therefore it would be best placed to provide data showing spending patterns against infrastructure investment. The National Treasury has supported cities participating in this grant by procuring transport experts to assist the cities with financial planning to ensure their transport systems are fiscally and financially sustainable, and by offering support through relevant experts such as the Office of the Chief Procurement Officer.

The Minister of Transport should explain the steps that the department had taken to assist these cities who are currently suspended from the grant. Furthermore, the Minister of Transport should provide a report on the possible implications for the suspension of these cities from the grant in light of what the Department of Transport's public transport strategy envisages.

This recommendation has been referred to the Minister of Transport.

The Minister of Cooperative Government and Traditional Affairs (COGTA) should clarify the steps that the department implemented over time in order to fast-track the implementation of this grant and what appears to be the challenges in these cities and how COGTA was assisting these municipalities through available intergovernmental processes.

This recommendation has been referred to the Department of Cooperative Governance.

SALGA clarifies its role in assisting municipalities and cities with the implementation of the public transport network grant *and what has been done to address the challenges faced by these cities in spending this grant according to the grant framework. SALGA should also clarify the service delivery implications of the immediate suspension of these cities in this grant.*

This recommendation has been referred to SALGA.

That the Mbombela, Buffalo City, and Msunduzi municipalities should appear before the committee to explain in detail the challenges faced by these cities in spending and implementing the public network grant according to the grant framework. These municipalities should provide evidence on where they have solicited assistance in from other government structures in order to spend this grant and provide these important services to the communities in these cities. The implications on service delivery and job creation in these cities should also be highlighted.

This recommendation has been referred to the Mbombela, Buffalo City and Msunduzi municipalities.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

That the Minister of Finance ensures that the National Treasury provides a socioeconomic and service delivery impact assessment of the overall suspensions of grants before the tabling of the 2020 MTBPS.

The National Treasury welcomes the opportunity to report to the committee at its earliest convenience. The National Treasury worked closely with departments to minimise the negative effects of these reductions. These are temporary suspensions to spending for 2020/21 to provide funds for the COVID-19 response, including a social and economic relief package. Accordingly, no significant effect on service delivery is expected as most affected programmes are delayed.

The Minister of Finance ensures that the National Treasury provides a comprehensive report on how the National Treasury plans to fund infrastructure spending aimed at reconstruction, rehabilitating and maintaining social and economic infrastructure such as schools, roads and other government infrastructure assets after COVID-19. The committee is concerned that a lack of a detailed and proper infrastructure recovery plan will lead government to the same path as is currently experienced with Eskom infrastructure maintenance related challenges. This plan should signal the National Treasury's commitment on funding public infrastructure for reconstruction, maintenance and rehabilitation, while also outlining potential future costs escalations due to delays in funding these key government infrastructure activities and estimated costs overruns of delayed infrastructure projects. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The 2020 MTBPS provided a description of the measures to support economic growth, including the funding for infrastructure and the economic development function.

In line with the pronouncements made by the President on infrastructure investments for both economic growth stimulation and job creation, the Minister of Finance should ensure that the National Treasury provides a comprehensive report on how this bill responds to the pronouncements made by the President on infrastructure investment. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The 2020 MTBPS provided a description of the measures to support economic growth, including the funding for infrastructure and the economic development function.

The Minister of Basic Education ensure that the Department of Basic Education submit a detailed report to the committee on the impact of reducing the education infrastructure grant *and detailed recovery* *plan for school infrastructure reconstruction, rehabilitation and maintenance. Given the reports on the number of schools vandalised and destroyed during the lockdown period, the department must also include a detailed list of these schools per province and present a detailed maintenance recovery plan of these schools.*

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs facilitates and ensure engagements between the National Treasury and SALGA so as to resolve the revenue and capacity challenges at the local sphere of government. The committee should be provided with a report on the outcomes of these engagements before the tabling of the 2020 MTBPS.

The National Treasury is implementing this recommendation, as outlined in a previous response above.

The Minister of Finance jointly with the Minister of Cooperative Governance and Traditional Affairs provide a comprehensive report on how all the municipalities placed under section 139 interventions were monitored and assisted in responding to the COVID-19 pandemic. Considering that some of these municipalities were showing slow to no signs of improvements, this report must be submitted to the committee before the tabling of the 2020 MTBPS.

The National Treasury will provide this report. On a monthly basis, the National Treasury monitors these municipalities if they have financial recovery plans. This practice continued during the COVID-19 pandemic. Many municipalities under intervention do not implement their financial recovery plans as required and are advised to do so. Municipalities under intervention were generally unable to quantify the effect of the pandemic on their financial position. In most cases, the effect on municipal revenues tended to be overstated in anticipation of additional financial relief. These municipalities will be assisted through revised financial recovery plans focusing on adjustments to their expenditure.

That National Treasury reconsiders the approach of reprioritisation of funds away from the urban settlements development grant *in particular and focus more on enhancing the capacity at local government level to effectively, efficiently and economically spend the grant allocations.*

The National Treasury notes the recommendation. Government spends approximately R2.5 billion per year on building capacity in local government and is reviewing the effectiveness of these capacity-building programmes.

That the relevant Parliamentary portfolio committees should also follow up on issues of poor performance and underspending on key infrastructure grant allocations which have been raised in this report.

The National Treasury supports this recommendation. Departments are accountable for spending and performance on grant allocations that they administer.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Second Amendment Bill (2020)

In relation to the proposed R1.3 billion reduction in provincial conditional grants allocation to fund the SAA business rescue plan, the Minister of Finance must ensure that the National Treasury provides the committee with an impact assessment report on all provincial conditional grants allocations which were reduced to fund the SAA business rescue plan. The report must highlight the service delivery implications for these proposed grants allocation reduction.

The National Treasury looks forward to reporting to the committee at its earliest opportunity.

Similarly to the recommendation above and in relation to the R613 million proposed reduction on local government conditional grants allocation, the Minister of Finance must ensure that the National Treasury provides the committee with a comprehensive impact assessment report on each of the local government conditional grants allocations that were reduced to accommodate the SAA business rescue plan. In that report, service delivery implications must be highlighted per conditional grant. The committee wants to evaluate the impact of these grants. The committee also wants to evaluate the scientific manner in which these budget reductions were effected.

The National Treasury looks forward to reporting to the committee at its earliest opportunity. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

The Minister of Finance must ensure that the National Treasury provides the committee with a detailed report of all the municipalities whose conditional allocations were reduced to fund the SAA business rescue plan. In that report, the National Treasury must indicate how much each of these affected municipalities owes Eskom for electricity services and the water boards for water.

The National Treasury has provided these details.

All the reports requested above be submitted to the committee before the tabling of the 2021 Budget to allow the committee sufficient time to analyse the information before the consideration and reporting on the 2021 Budget bills.

The National Treasury has provided the information for which it is responsible, and relevant departments have been informed of this request when recommendations were referred.