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

Section 7(4) of the Money Bills and Related Matters Act (2009) requires 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 recommendations made by Parliament or why it does not do so. The recommendations to which this annexure responds are those made in:

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

Budgetary review and recommendation reports

In terms of section 5 of the act, committees in the National Assembly must assess the performance of each national department before the budget is introduced and prepare budgetary review and recommendation reports. These reports:

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

This annexure provides responses to the portfolio committees' recommendations and recommendations from finance committees 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 implement these recommendations. However, departments, public entities and other institutions can reprioritise existing funds for new priorities, and in many cases have been able to do so.

Portfolio Committee on Employment and Labour

The committee demands to receive written monthly progress reports on the engagements between the Department of Employment and Labour and the National Treasury on financial sustainability of the Supported Employment Enterprises (SEE) factories.

The department has been advised to resolve the corporate form of the SEE by engaging with the Public Entities Governance Unit in the National Treasury. This may require a new business case, as the business case and implementation plan done in 2012 was not fulfilled. The department will provide monthly reports on these engagements. A preferential procurement framework for government entities is being explored as part of the new Public Procurement Bill, which will aid the SEE factories.

Portfolio Committee on Higher Education, Science and Technology

The committee noted that with the current funding for ministerial approved programmes at 62 per cent, the department will not be able to meet the enrolment target as per the National Development Plan (NDP). The committee recommends that consideration be made towards progressively injecting additional funds to achieve the 80 per cent funding.

The National Treasury acknowledges this recommendation. In light of the limited resources available to government, the Department of Higher Education and Training has had to tailor enrolment funding for the technical and vocational education and training colleges to align it to the funding available. Should the government's fiscal position improve, the department will be considered for additional resources.

The committee recommends additional funding towards the Community Education and Training (CET), especially given the high rate of youth unemployment and the growing number of youths not in education, employment or training.

The National Treasury shares the committee's concern about the high rate of youth unemployment and the need to provide opportunities for young people. At present, enrolment at CET colleges is relatively low because of low demand rather than limited funding. Improving efficiency, including providing more relevant courses, is likely to encourage more young people to enrol at CET colleges.

The committee implores the National Treasury to consider additional funding for the National Student Financial Aid Scheme (NSFAS) to avert the instability and unfortunate loss of lives experienced at the beginning of the 2021 academic year.

Cabinet is engaging with input from the Ministerial Task Team on Student Funding to find a sustainable solution to the increasing demand to provide fee-free higher education funding. Funding of the current model has been supplemented by an additional allocation of R32.6 billion over the medium term.

The committee requests that consideration for additional funding should be made to increase administrative expenditure of the NSFAS as the current administrative budget imposes limitations on the improvements that the Scheme can implement to improve efficiencies, including ICT challenges.

The Department of Higher Education and Training has reprioritised R65 million from savings on unfilled posts in 2021/22. The funds will be used by NSFAS to address its information and communications technology challenges. Further savings may be found by addressing inefficiencies in NSFAS's current operations.

The committee recommends that the National Treasury considers the South African Qualifications Authority (SAQA) request for additional funding so that the entity can fulfil its mandate and deliver services within the set turnaround times.

The Department of Higher Education and Training has reprioritised funding from its baseline to allocate an additional R10.6 million to SAQA over the medium-term expenditure framework (MTEF) period.

Portfolio Committee on Sport, Arts and Culture

The committee recommends that the Minister of Finance should prioritise adequate funding and allocation towards the implementation of the White Paper on Arts, Culture and Heritage over the MTEF period.

As noted, there is little scope to provide additional funding at this time. The Department of Sport, Arts and Culture is advised to reprioritise funds in order to implement the White Paper.

The department's budget was reduced by R956 million due to COVID-19 reprioritisation. The committee recommends that the Minister of Finance consider increasing the department's budget for 2022/23 to ensure that the department can fully deliver on its mandate.

The department reallocated funds unspent due to COVID-19 restrictions within its baseline. The 2022/23 baseline is not affected and does not require any upward adjustment.

Portfolio Committee on Women, Youth and Persons with Disabilities

The committee requests the National Treasury to consider the condonation requests by the department and the Commission for Gender Equality (CGE).

The National Treasury will consider the condonation requests in line with the irregular expenditure framework when these are submitted by the department and the CGE.

The committee requests the National Treasury to consider the requests for roll-over of funds for the Department of Women, Youth and Persons with Disabilities and the CGE.

The National Treasury notes this recommendation. Requests for rollovers are considered by an internal Treasury committee, guided by Treasury Regulation 6.4. Rollovers that meet the requirements and are approved by the Minister of Finance will be included in the Adjustments Appropriation Bill.

The committee requests the National and Provincial Treasuries to provide a detailed report on the funding of the Sanitary Dignity programme (SDP).

In 2021/22, R217.3 million was allocated to this programme. Of this amount, R121 million was allocated to provincial departments of education, which implement the programme in five provinces. The remaining R96.3 million was allocated to provincial departments of social development, which implement the programme in the other four provinces. As noted in the 2021 Budget, the relevant provincial departments are best placed to provide more information on funding for these programmes.

Portfolio Committee on Tourism

The National Treasury should work with the Minister of Tourism to determine the budget required to ensure the full recovery of the tourism sector.

The National Treasury will continue to engage the Department of Tourism on funding-related issues during the annual budget process and to support efforts to enable the recovery of the tourism sector. Over the 2022 MTEF period, government has set aside R360 million to support the pilot phase of the Tourism Equity Fund introduced in 2021.

Portfolio Committee on Defence and Military Veterans

The committee notes with concern the Department of Defence's (DoD) continuous overspending on compensation of employees against the ceiling set by the National Treasury that again resulted in irregular expenditure in 2020/21. This concern requires short-term and long-term solutions. The National Treasury should reconsider assisting the DoD with its plans to cut compensation of employees by providing additional funding for an exit mechanism. Furthermore, the National Treasury should indicate to the committee whether it is willing to start funding such a mechanism should the DoD show success in the implementation of its plans to curtail compensation of employees' expenditure.

The National Treasury agrees that the department requires both a short- and long-term plan to manage compensation spending pressures. The department is allocated R1.8 billion over the medium term to implement an exit mechanism that includes employee-initiated severance packages and early retirement without penalising pension benefits.

The committee is aware of the fiscal constraints and noted National Treasury's previous response to the BRRR [budgetary review and recommendation report] *that no funds were available for a ring-fenced allocation to fund the midlife upgrades of the South African Navy (SA Navy) vessels. However, the committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy's Frigate and Submarine fleet in the coming years. The non-availability of naval platforms due to maintenance requirements results in the SA Navy not achieving its targets for coastal patrols and sea hours, thus affecting its constitutional mandate to ensure the territorial integrity of South Africa. Additional funding over the medium term for the midlife upgrade is therefore essential.*

The National Treasury notes the committee's concern. Given the limited scope to provide additional funding, the National Treasury's recent engagements with the department have focused on resolving its immediate compensation spending pressures. The reforms described above are expected to generate savings that can be used for other priorities such as the midlife upgrade of the SA Navy vessels.

Portfolio Committee on Justice and Correctional Services

In addition to recommending that zero budget reductions are applied in the case of the National Prosecuting Authority, Legal Aid South Africa, the Special Investigating Unit, the South African Human Rights Commission and the Public Protector South Africa, the committee recommends that additional funding be provided to:

- *Legal Aid South Africa to establish a Land Rights Management Unit that can provide legal services to poor and vulnerable persons seeking land justice*
- *the Information Regulator for additional capacity*
- *the South African Human Rights Commission to appoint additional monitoring staff; upgrade and replace outdated ICT; and fulfil its coordinating role in respect of the National Preventative Mechanism*

established in terms of the Optional Protocol to the Convention Against Torture and Other Cruel, Inhumane or Degrading Treatment or Punishment

- *Public Protector South Africa to fill vacancies, employ subject matter experts for complex investigations, and provide for security and skills development.*

The baseline budgets for justice-related institutions are not reduced in the 2022 Budget. Additional funding has been allocated through reprioritisation, as discussed in Chapter 5. Funds will also be transferred to Legal Aid South Africa, in line with current budget processes, to enable the entity to provide the specified legal services upon receipt of a formal request to facilitate such a transfer from the institutions involved. No additional funding is allocated to the Information Regulator, although R105 million was provided in the 2021 Budget to enable it to grow and meet its legislative mandate.

Portfolio Committee on Police

The committee recommends that the South African Police Service (SAPS) meets with the National Treasury to reopen negotiations on developing the Directorate for Priority Crime Investigation (DPCI) as a separate programme within the SAPS and provide a report.

The National Treasury has discussed this matter with SAPS and the DPCI, including most recently at a meeting with the DPCI in December 2021. It is not feasible to separate the DPCI from SAPS, mainly because the operational functions of the DPCI are interlinked with the existing Detective Services Programme within SAPS. The South African Police Service Amendment Act (2012), which establishes the DPCI, distinguishes its functions and provides it operational independence from SAPS. For budgeting purposes, however, the DPCI falls within the purpose and definition of the Detective Services Programme. The budget for the DPCI is specifically and exclusively appropriated so that it can only use funds for their intended purpose and, importantly, its budget cannot be changed without Parliament's approval. Furthermore, as a subprogramme, the performance of the DPCI can be tracked, monitored and reported on separately in SAPS reports.

The committee recommends that the Independent Police Investigative Directorate (IPID) report back on its plans to procure independent technical reports. The committee recommends that the National Treasury considers making funds available to enable this to happen.

Although the current fiscal context and constrained budget does not allow for additional funds at this time, the National Treasury has engaged with the IPID on its budget constraints and cost containment measures. The National Treasury also identified inefficiencies and possible savings in information and communication technologies through a spending review.

Portfolio Committee on Transport

The Minister of Finance, through the National Treasury, should assist the Department of Transport and its entities, along with the Auditor General of South Africa, to obtain a definitive dented interpretation of decision of supply chain management terminology and issues raised with B-BBEE compliance requirements in order to prevent future disputes during the audit process.

Accounting officers and executive authorities are responsible for managing their supply chains. In addition, the National Treasury provides support through toolkits. Departments and entities can leverage the courses and training programmes offered to familiarise themselves with the relevant subject matter and generally accepted definitions and terminologies. The Office of the Chief Procurement Officer will continue to publish invitations widely for training that it offers.

The Minister of Finance through the National Treasury must assist the Department of Transport in finalising a new feasibility study linked to the future of Moloto Rail Corridor and other high-speed rail corridors.

The committee made a similar recommendation in the 2021 Budget. The option of building a new railway line along the Moloto Corridor was explored in a feasibility study undertaken by the Department of Transport in 2015. 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 Standing Committee on Finance

The committee is concerned with the dire situation at the Land Bank, especially since it failed to table its annual report for the 2020/21 financial year as its audit is still outstanding. The committee notes that the situation at the Land Bank has deteriorated after it defaulted on its debt about two years ago. We note further that the Land Bank has not yet finalised the liability solution to address the liquidity challenges and that this poses significant uncertainty regarding its going concern status. The committee urges the Minister of Finance to heighten his oversight and monitoring over the Land Bank in order to ensure that related financial and economic risks associated with it are mitigated. The committee will do an oversight visit to the Land Bank in the next quarter in order to get a detailed presentation on the challenges it faces, together with its insurance companies.

The Land Bank has made progress in addressing its financial challenges, which is reflected in an improvement in its 2020/21 audit relative to its 2019/20 audit outcomes. Chapter 8 provides more detail on these developments.

The committee notes that the South African Revenue Service (SARS) still has a large funding deficit of about R9 billion over three years. The committee notes some assurance from the Deputy Minister of Finance that budgetary processes were being undertaken in order to close this deficit. The committee recommends that the Minister of Finance considers favourably SARS's additional financial requirements as this could assist in rebuilding its capacity to serve taxpayers and collect more revenue.

Government is experiencing fiscal constraints and reprioritisation is the main policy tool for making funding available. Over the 2021 MTEF period, R3 billion was allocated to SARS to support capacity-building initiatives. The National Treasury will continue to engage SARS on its funding challenges in light of the importance of its work.

Recommendations of the Standing and Select Committee on Finance on the 2021 Revised and Proposed Fiscal Framework

The committee recommends that, in view of the VAT increase, constant increases in the cost of fuel and increases in the cost of living generally, the National Treasury considers a higher increase in grants than is usually the case by reprioritising expenditure and not exacerbating the debt-to-GDP ratio, as increases in debt in these specific circumstances will ultimately affect the poor disproportionately the most.

The National Treasury agrees that increases in social grants need to be fiscally sustainable. The 2022 Budget allocates additional amounts of R6.2 billion in 2023/24 and R8.5 billion in 2024/25 to ensure that social grants rise in line with inflation over the MTEF period. In addition, R44 billion is allocated to extend the *special COVID-19 social relief of distress grant* for 12 months until March 2023.

In the 2021 Fiscal Framework Report of the Committee, we stated that "in view of the COVID-19 related job losses, increasing poverty and inequality, the NT and the government should seriously consider a basic income grant after the necessary consultations with the relevant stakeholders". The Committee expects to hear concrete announcements on this when the Minister delivers the 2022 Budget in February.

The COVID-19 pandemic increased national debate on the possibility of a universal basic income grant and government is considering various proposals in this regard. It is essential to maintain social protection in a sustainable way. As discussed in Chapter 1 and Chapter 3, any proposals to expand this system need to be fully and appropriately financed by closing existing programmes to free up revenue, or through permanent increases in revenue collection.

The committee notes comments from some stakeholders that the risk statement in the 2021 MTBPS may be narrow, leaving out a number of other real risks such as the recurrence of social unrest and inadequate contingency reserves. The committee recommends that the National Treasury takes note of these concerns and seek to broaden its risk identification and analysis so that adequate mitigation measures can be catered for in the fiscal framework.

The National Treasury welcomes the proposal and will continue to assess risks as they arise. The fiscal risk statement (Annexure A in the MTBPS) focuses on medium- and longer-term risks to the public finances. Short-term risks are discussed in Chapter 3 of the MTBPS. Government faces a range of fiscal risks over the medium to longer term. Major risks identified in the 2021 MTBPS include, but are not limited to, the durability of the economic recovery, litigation relating to public-service compensation, future wage negotiations and the financial state of several state-owned companies and municipalities.

The committee recommends 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 committee recommends that the Public Procurement Bill be brought to Parliament and the processing of Regulation 28 of the Pension Funds Act be acted on with urgency.

The National Treasury agrees with this recommendation. The draft Public Procurement Bill was gazetted for public comment in February 2020. The revised bill needs to be approved by the Minister of Finance, submitted to the National Economic Development and Labour Council for consultation, and then approved by Cabinet before its introduction in Parliament. The National Treasury is processing public comments on the second draft of Regulation 28 of the Pension Funds Act (1956) and will submit a final version to the Minister of Finance for gazetting shortly.

The committee notes that the Financial Action Task Force's Mutual Evaluation Report found gaps in the implementation of South Africa's anti-money laundering and terrorist financing measures. The committee requests a briefing on this report by the National Treasury and the Financial Intelligence Centre.

The National Treasury will present a report to Parliament on the Financial Action Task Force's Mutual Evaluation Report and introduce urgent legislation aimed at addressing shortcomings identified in the mutual evaluation.

Recommendations of the Standing Committee on Appropriations on the 2021 MTBPS and Adjustments Appropriation Bill

That the Minister of Finance and the Project Management Office at the Presidency ensure that the funds allocated towards the Presidential Youth Initiatives are spent within the required guidelines and frameworks in order to avoid potential abuse and corruption.

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.

On the declared unspent funds of R1.3 billion on the public transport network grant *for the City of Cape Town, the Minister of Transport and the City of Cape Town must provide a detailed report to Parliament on the reasons and implications for the delays in implementing the MyCiTi phase 2A. The committee wants to understand why there are delays in the implementation of this project and the remedial action taken to correct this problem. This will assist the committee to avoid recommending the appropriation of funds that will not be spent and possible future reductions of this grant.*

The recommendation has been referred to the Department of Transport. The National Treasury notes that the *public transport network grant* for the City of Cape Town was reduced to align it with the City's revised implementation plan for MyCiTi phase 2A.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Amendment Bill

That the Minister of Basic Education ensures that the Department of Basic Education provides a detailed report on the planning and framework used by various schools while using the R6 billion allocation for the Presidential Youth Employment Initiative to fund the employment of education assistants and general school assistants at public ordinary schools and public special schools.

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

That the Minister of Basic Education ensures that the Department of Basic Education (DBE) provides Parliament with a detailed plan and timeframes on how the department plans to ensure that all schools have access to decent water and sanitation by the end of 2022 as part of the Sanitation Appropriate for Education initiative. Furthermore, the DBE must provide a detailed list of all the schools that have inappropriate water and sanitation per province and regions, as well as the plan as to when each of these schools' water and sanitation needs will be addressed.

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

That the Minister of Social Development ensures that the Department of Social Development (DSD) provides a comprehensive report to Parliament on the policy around the funding and subsequent deployment of social work graduates who are beneficiaries of the government bursary scheme. Furthermore, the DSD must provide a comprehensive expenditure report on the numbers of social workers that were funded through the government bursary scheme over the last five financial years, the total amount spent, and the number of those graduates who were placed to work areas by the department.

This recommendation has been referred to the Department of Social Development.

On the proposed allocation reduction of R1.3 billion on the public transport network grant *for the City of Cape Town, the Minister of Transport and the City of Cape Town provides a detailed report to Parliament on the reasons and implications for the delays in implementing the MyCiTi phase 2A. The committee wants* *to understand why there are delays in the implementation of this project and the remedial action taken to correct this problem. This will assist the committee to avoid recommending the appropriation of funds that will not be spent and possible future reductions of this grant.*

The recommendation has been referred to the Department of Transport. The National Treasury notes that the *public transport network grant* for the City of Cape Town was reduced to align it with the City's revised implementation plan for MyCiTi phase 2A.

That the Minister of Water and Sanitation ensures that the Department of Water and Sanitation provides a detailed report to Parliament on the progress, challenges and status of the Vaal River pollution remediation project in Emfuleni local municipality.

This recommendation has been referred to the Department of Water and Sanitation.

That the Minister of Health ensures that the Department of Health (DoH) provides Parliament with a comprehensive report on the continuous repurposing and reprioritisation of various components of the national health insurance grant*, and the status of the entire National Health Insurance Programme. Furthermore, the Minister is requested to ensure that the DoH provide the committee with a progress report on both the Limpopo Academic and Klipfontein hospitals. The DoH must provide a report on the possible service delivery implications of the proposed reduction of funds to these projects.*

This recommendation has been referred to the Department of Health.

That the Minister of Finance ensures that the funds allocated towards the Presidential Youth Initiatives are spent within the required guidelines and frameworks in order to avoid potential abuse and corruption.

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.

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

The National Treasury should ensure that any movement of funds is always done according to the provisions of the Public Finance Management Act (1999) and Treasury Regulations. The committee does not support any movement of funds emanating from poor planning and performance by government departments.

The National Treasury welcomes this recommendation. Virements and shifting of funds are always carried out in line with the relevant legislation and regulations, including those cited by the committee.

The National Treasury should approve the rollover amount of R2.8 billion in line with the Public Finance Management Act and Treasury Regulations for projects that have already been committed or nearing completion. However, the rolling over of funds due to poor project management, planning and execution cannot be allowed.

The National Treasury notes the recommendation by the committee. Requests for rollovers are always considered within the parameters set by Treasury Regulation 6.4.

The National Treasury and the Department of Social Development should consider extending the R350 temporary special COVID-19 social relief of distress grant *beyond March 2022, considering budgetary constraints and depending on the COVID-19 impact and economic recovery plans.*

The National Treasury agrees and will use part of the higher-than-expected revenue collection to extend the grant for 12 months to March 2023.

The committee notes the Congress of South African Trade Unions (COSATU's) recommendation that, given the current economic conditions, the National Treasury and Cabinet should explore implementing a 25 per cent package cut for members of the Cabinet, provincial executive and mayoral committees, as well as executive managers in the state, entities, state-owned entities and metropolitan municipalities.

The National Treasury agrees that remuneration packages in state-owned companies need to be better aligned with the public-service remuneration framework. Nevertheless, this would require legislative changes for certain state-owned companies, as remuneration in state-owned companies is governed by their boards. Remuneration matters relating to public office bearers are governed by the Independent Commission for The Remuneration of Public Office-Bearers. The National Treasury's role is to advise on proposed recommendations, in light of the macroeconomic and fiscal position of the country.

The committee notes COSATU's recommendation that government should consider reversing budget cuts to key programmes that will impact on its ability to implement industrial, manufacturing and export programmes to improve economic growth.

As noted, the fiscal outlook is highly constrained at this time. If fiscal constraints ease, priority programmes may be considered for additional funding.

The committee has long supported gender budgeting and gender mainstreaming; and further stresses the importance of recognising the rights, needs and interests of the lesbian, gay, bisexual, transgender, queer or questioning, intersex, and asexual or ally (LGBTQIA+) community and requests the National Treasury to, in future, explicitly set out what cross-cutting funding furthers these. The National Treasury and Cabinet should look into these matters very closely and the committee will monitor this.

The National Treasury welcomes this recommendation and will update the committee as its work develops. It is working with other stakeholders to implement gender-responsive budgeting across government. This is expected to roll out in the 2023 MTEF process.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Amendment Bill

The National Treasury and Cabinet should take into consideration the existing capacity of the officials and institutions to properly spend additional funds when allocations are made to various provinces and municipalities. The situation where poor planning and lack of capacity to implement projects result in poor spending, unnecessary rollovers and deviations, cannot be allowed to continue. The relevant Minister must further ensure that the implementation of consequence management is fast-tracked and, where necessary, law enforcement agencies are brought on board to recover any financial losses to the state and hold the implicated officials or politicians accountable.

The National Treasury notes the recommendation. Sector departments facilitate the process of determining the allocations for provinces and municipalities for conditional grants. This process includes developing mechanisms to assess the plans that provinces and municipalities submit and to provide guidance on the implementation of these plans. The conditional grant frameworks also include details on compliance requirements for conditional grant allocations. For funds to be rolled over, sector departments, provinces and municipalities need to comply with predetermined criteria, including an assessment of spending capacity.

While the committee welcomes the increased allocation for local government over the medium-term period, the National Treasury and the Department of Cooperative Governance and Traditional Affairs, *together with their provincial counterparts and the South African Local Government Association (SALGA), need to work together to ensure that suitably qualified and experienced individuals are appointed to improve financial management capacity and service delivery in local government.*

Municipalities are responsible for appointing their employees. The National Treasury has shared minimum requirements for appointments in certain positions in municipalities.

The National Treasury and the Department of Cooperative Governance and Traditional Affairs (DCoG), together with their provincial counterparts, should ensure that concerns raised by SALGA around the correctness of assumptions about collection of own revenue, contained in the 1998 Local Government White Paper, are addressed urgently.

This issue was discussed extensively in the 2020 and 2021 Budget Forum lekgotla. SALGA, the Department of Cooperative Governance and Traditional Affairs, the National Treasury and the Financial and Fiscal Commission are implementing the resolutions and tracking quarterly progress. A Budget Forum session is expected to provide feedback around March 2022.

The Department of Cooperative Governance and Traditional Affairs (CoGTA) needs to work with SALGA to fast-track the implementation of the resolution around unfunded mandates, which was taken during the Local Government Budget Lekgotla in December 2020 and further ensure that funds always follow function.

The National Treasury has referred this recommendation to CoGTA and SALGA. A Budget Forum session is expected to provide feedback around March 2022.

The provincial departments of cooperative governance and provincial treasuries should work with SALGA to ensure that proper interventions and systems to monitor service delivery in local government are implemented to address the issues around water losses and electricity challenges. Moreover, the committee is of the view that the provincial executives of both finance and cooperative governance need to again work with SALGA to enforce consequence management in relation to negative performance reports, failure to submit financial statements, and fruitless and wasteful expenditure using the monthly and quarterly reports they receive.

The National Treasury has referred this recommendation to the provincial departments of cooperative governance and treasuries.

The National Treasury should be proactive in ascertaining which provinces will not spend their housing budgets to ensure appropriate remedial actions are taken immediately, including the transfer of the funds to better performing provinces, and avoid last-minute gazettes, fruitless and wasteful expenditure and fiscal dumping towards the end of the financial year.

The National Treasury notes the recommendation. Departments are responsible for administering and monitoring performance within the conditional grants. The National Treasury supports departments through the implementation of the Division of Revenue Act. In terms of this act, any reallocation of funds in terms of section 19(1) requires transferring departments to consider whether the reallocated amounts will be spent within the same financial year.

The National Treasury and the Department of Cooperative Governance and Traditional Affairs should ensure that challenges around delays and poor contracting, which led to the roll-over amount of R582 million for the Vaal River Pollution Remediation Project in Emfuleni local municipality, are addressed and the work verification process is completed for invoices to be paid as required. Otherwise, such delays will have a negative impact on the project completion timelines, service providers' cash flows and the livelihoods of their employees.

The National Treasury will engage the Department of Water and Sanitation on how this project can be fast-tracked.

The Department of Cooperative Governance and Traditional Affairs, together with its provincial counterparts, should fast-track the implementation of the district development model to ensure systems are in place for more integrated delivery of services and ensure sufficient capacity, by driving coordination and alignment of processes, which have been a challenge in the local government sphere for many years.

The National Treasury has referred this recommendation to the Department of Cooperative Governance and Traditional Affairs.

The Department of Basic Education, together with provincial education departments, should ensure that the lack of parity between provinces regarding the stipend paid to early childhood development workers is urgently addressed, once the function shift from the Department of Social Development has been completed. COSATU and other federations should work with government to address this.

The National Treasury has referred this recommendation to the Department of Basic Education.

The National Treasury and the Department of Transport, together with their provincial counterparts, should make sure that allocations earmarked for the provincial roads maintenance grant *are utilised effectively, according to the grant framework, to address the poor state of some provincial roads, which negatively affects economic activities. The quality of material used, workmanship and procurement processes for such projects need to improve in order to realise value for money.*

The National Treasury has referred this recommendation to the Department of Transport. The two departments are developing criteria for allocating grant funding earmarked for performance incentives.

With regard to hospital infrastructure maintenance, the National Treasury and the Department of Health, together with their provincial counterparts, should ensure that more resources are earmarked to deal with the current poor state of some hospital infrastructure, which requires proper maintenance in various provinces, especially given the advent of the COVID-19 pandemic. Furthermore, the quality of workmanship and material and procurement processes for such projects need to improve to achieve value for money.

Government provides substantial funding for this purpose, including through the *health facility revitalisation grant*. This conditional grant, which was allocated R21.3 billion over the 2022 MTEF period, is transferred to provinces for the construction and maintenance of health infrastructure. In addition, provincial departments of health fund infrastructure maintenance through their own budgets. At present, there is limited scope for additional fiscal resources. The recommendation has also been referred to the Department of Health.

The Department of Water and Sanitation, together with the Western Cape Provincial Treasury, should ensure that the implementation of the potable water security and remedial works project is expedited in the George Local Municipality and the allocated funds are spent according to the framework of the regional bulk infrastructure grant *to ensure improved access to clean, drinkable water for all.*

The National Treasury agrees with this recommendation. The Department of Water and Sanitation, the Western Cape Provincial Treasury and the National Treasury will monitor performance in this municipality through the monthly and quarterly performance reports required by the Division of Revenue Act.

The National Treasury and the Department of Basic Education should ensure that the rollover amount of R210 million for the school infrastructure backlogs grant *to complete projects that are part of the Sanitation Appropriate for Education initiative is properly spent to expedite the replacement and removal* *of inappropriate and unsuitable sanitation in certain provinces. The committee is of the view that the pace at which this initiative is implemented, is unacceptably slow given that this programme started in 2010. The department should expand the programme to include the eradication of asbestos schools in certain provinces, if not already included.*

The National Treasury has referred the recommendation to the Department of Basic Education and will continue to monitor the monthly spending in line with its oversight role.

The National Treasury and Department of Public Service and Administration, together with provincial treasuries, should ensure the effective implementation of the wage agreement of the Public Service Co-ordinating Bargaining Council for the 2021/22 financial year for public-sector workers, according to the agreed terms. This should bring the much-needed certainty and stability in the public service to ensure uninterrupted service delivery to the poor and vulnerable. Furthermore, government needs to ensure that funded vacant posts are filled urgently. COSATU and other federations should work with government to ensure progress in this regard.

Additional funds have been allocated to provincial transfers for provinces to pay the cash gratuity for public-service employees resulting from the 2021 wage agreement. The National Treasury has also referred the recommendation to the Department of Public Service and Administration.

The headcount cuts for the South African Police Service and teachers need to be reversed in order to protect frontline service delivery. The committee is of the view that the headcount cuts should happen at the management level of each department as opposed to the levels at which services are being delivered.

Government's fiscal consolidation strategy requires departments to contain expenditure on employee compensation. The National Treasury has encouraged departments to protect frontline services to the degree possible, but management of personnel numbers and compensation spending are departmental prerogatives. The 2022 Budget provides additional funding for the police, education and health sectors over the next three years to address some of these challenges.

The National Treasury and Cabinet need to ensure that concrete steps are taken to monitor the impact of the well-funded employment creation programmes, such as the Presidential Youth Employment Initiative, to achieve value for money and avoid mistakes that might have occurred in similar programmes in the past.

The National Treasury notes this recommendation. The Presidency has developed reporting requirements for this programme and requires monthly reporting so that it can monitor impact, along with the Department of Planning, Monitoring and Evaluation.

Recommendations of the Select Committee on Appropriations on the Second Special Appropriation Bill

The Minister of Finance should ensure that the South African Special Risk Insurance Association (SASRIA) SOC Ltd expedites the process of verifying and validating additional claims, as well as sharing its revenue model with government and employing clear measures to cover for all additional claims and to address any possible negative impact on its solvency ratio.

SASRIA shares its revenue model through its corporate plan, submitted to Parliament in terms of section 52 of the Public Finance Management Act. Chapter 8 provides more detail on developments at SASRIA.

The Minister of Finance should put clear conditions in place for the additional allocation of R700 million to the South African National Defence Force (SANDF) as well as the R250 million to the South African Police Service (SAPS). These conditions should include the following: ensuring that issues such as supply *chain management challenges, top-heavy organograms, clear restructuring processes and under-expenditure are urgently addressed before the end of the current financial year.*

The National Treasury notes the recommendation and will continue to engage the departments on the issues noted by the committee in future budget processes. The relevant allocations were specifically to provide for unforeseen costs resulting from public violence in July 2021 and for the deployment of the SANDF in Mozambique.

The National Treasury and the Department of Trade, Industry and Competition, together with the Department of Small Business Development, should reconsider and address rigid bureaucratic processes for small, medium and micro enterprises to access government support relief funds and develop adequate communication mechanisms to ensure that all businesses in townships and rural areas, which were affected by the unrest, are part of the government relief support.

The National Treasury evaluates programmes, recommends funding and, if funding is approved, monitors expenditure and performance. Departments are responsible for designing and administering their programmes, including ensuring they meet their objectives. The recommendation has also been referred to the Department of Trade, Industry and Competition and the Department of Small Business Development.

The Minister of Finance, together with the Ministers of Social Development; Trade, Industry and Competition; Police; and Defence, should ensure that all additional funds earmarked for their respective departments are spent according to the approved departmental plans and within the ambit of the Second Special Appropriation Act (2021); and further ensure that clear internal controls and financial management systems are put in place to prevent poor performance and wasteful and fruitless expenditure, and that consequence management is enforced and implemented, where necessary, to deal with issues of financial misconduct and corruption.

The National Treasury agrees with the committee's recommendation and will continue to monitor the use of the allocated funds as part of its spending oversight of departments. Under the Public Financial Management Act, accounting officers of departments are responsible for preventing unauthorised, irregular and fruitless and wasteful expenditure, as well as losses resulting from criminal conduct.

Recommendations of the Select Committee on Appropriations on the proposed division of revenue and conditional grant allocations to provinces and municipalities as contained in the 2021 MTBPS

While noting the impact of COVID-19 on the economy, the committee is of the view that the National Treasury and Cabinet should outline and continue to intensify efforts to develop policies, interventions and measures to grow the economy in the 2022 Budget, to avoid a situation where transfers to provinces and municipalities continue to grow below inflation. This will also assist in better managing the escalating cost of government debt, which negatively affects resources to deliver basic services to the poor and vulnerable.

The National Treasury agrees that policies should aim to raise economic growth to increase fiscal resources and help manage escalating debt. The 2022 Budget is aimed at achieving these objectives. As noted, the fiscal position is highly constrained, affecting the rate at which transfers to provinces and municipalities grow.

While welcoming the annual update of the provincial equitable share (PES) formula to ensure fair funding allocations to each province, the committee urges the National Treasury and the Department of Health to expedite the process of phasing in the changes to the health component between the 2022/23 and 2024/25 financial years, which accounts for 27 per cent of the formula. In addition, the National Treasury, *together with provincial treasuries, should ensure that monitoring systems and controls are put in place to achieve effective and efficient spending of the PES.*

Changes to the health component as a result of the new risk adjustment index will be phased in over the 2022 MTEF period to help provinces adapt to the resulting changes in their equitable share allocations. The National Treasury, alongside provincial treasuries, will continue to monitor spending of the provincial equitable share in line with its oversight role.

While the introduction of various components into the HIV, TB, malaria and community outreach grant *over the years is welcomed, the National Treasury and Department of Health should ensure that this conditional grant expenditure is improved and implemented according to the division of revenue framework.*

The National Treasury notes this recommendation. From the 2022 MTEF period, the *HIV, TB, malaria and community outreach grant* will be restructured to address concerns over its spending and management arising from the introduction of various new components. The restructured grant, the *district health programmes grant*, will have two components: the comprehensive HIV/AIDS component and the district health component. The components that were created for mental health services and oncology services will be shifted to the direct *national health insurance grant*. Spending and management of conditional grants are monitored by relevant national departments and the National Treasury in line with the Division of Revenue Act.

While the committee welcomes the shifting of the mental health and oncology components introduced in the HIV, TB, malaria and community outreach grant *in the 2021 MTEF to the direct* national health insurance grant *for provinces; the National Treasury and the Department of Health need to make sure that sound financial management and procurement processes are strengthened for provincial health departments to avoid wastage. The National Treasury should report on this matter during the next budget process.*

This recommendation is noted. The components that were created for mental health services and oncology services will be shifted to the direct *national health insurance grant*, now that provinces have demonstrated their readiness to take over the functions. The shifted funds will follow the financial management and procurement process of the grant recipient, which is monitored by the national Department of Health to ensure compliance with the provisions of the Division of Revenue Act and avoid wastage.

The Department of Basic Education, together with provincial education departments, should ensure that the lack of parity between provinces regarding the stipend paid to early childhood development workers is urgently addressed once the function shift from the Department of Social Development has been completed. COSATU and other federations should work with government to ensure progress on this matter.

The National Treasury has referred this recommendation to the Department of Basic Education.

The committee urges the Department of Transport to fast-track the development of objective allocation criteria for the incentive component of the provincial roads maintenance grant *(PRMG), which has been removed from the baseline due to some delays. Further, the National Treasury and the Department of Transport, together with their provincial counterparts, should make sure that allocations earmarked for the PRMG are utilised effectively, according to the grant framework, to address the poor state of some provincial roads, which negatively affects economic activities. The National Treasury should report on this issue during the next budget process.*

The National Treasury is working with the Department of Transport to develop objective criteria for the incentive component. The conditional grant framework contains conditions that provinces need to comply with in ensuring that funds are used effectively. The Department of Transport monitors provincial compliance in the *provincial road maintenance grant.* Measures to address non-compliance include withholding transfers.

While the committee welcomes the expansion of scope for the municipal infrastructure grant *(MIG) to help municipalities to improve their asset management practices; the committee urges the Department of Cooperative Government and Traditional Affairs to fast-track the process of identifying municipalities that require such intervention for funds to be earmarked in the 2022/23 financial year. The National Treasury must report on this during the next budget process.*

The National Treasury acknowledges the urgency of finalising this process. The Department of Cooperative Governance expects to identify these municipalities by end-February 2022, at which point it will notify them and discuss entering into a memorandum of understanding. The implementation plan for municipalities is expected to be finalised by April 2022.

While the committee welcomes the increased allocation for local government over the medium-term period, the National Treasury and the Department of Cooperative Governance and Traditional Affairs, together with their provincial counterparts and the South African Local Government Association (SALGA), need to work together to ensure that suitably qualified and experienced individuals are appointed in finance units at municipalities. The committee is of the view that building the required in-house capacity is paramount for any stable government and therefore the amount of R1 billion reportedly spent on consultants to compile municipal financial reports is highly unacceptable, especially when municipal finance management units have been established in the provincial treasuries to also assist.

The National Treasury agrees with this recommendation. It will work with provincial treasuries to strengthen the capacity of municipal officials in financial management units through the *local government financial management grant*.

The National Treasury, together with Department of Cooperative Governance and Traditional Affairs, should ensure that institutional problems at local government are adequately diagnosed before solutions are developed and the current fragmented capacity-building programmes are reviewed and tailored to respond to specific capacity challenges affecting local government finances. They should also ensure that municipal finance management units are strengthened and accountability is enforced, both politically and administratively, to ensure consequence management for transgressors.

The National Treasury agrees with this recommendation, which aligns with the findings from its recent review of the capacity-building system for local government. Chapter 6 provides more detail on the review and steps that will follow.

The Committee notes with concern the growing trend of allocating indirect grants which creates a false narrative of increased allocations to local government when in fact these are merely national department projects being rolled out at local level; and therefore wishes to emphasise the importance of the three spheres of government and the important distinctions between the spheres. The lack of capacity at certain municipalities to spend should not disadvantage those municipalities that are able to spend their direct conditional grants. In addition, the administering department should ensure that municipalities who are unable to spend, are capacitated to perform better.

The National Treasury notes these concerns. The National Treasury is in discussions with departments on possible reforms to creating new indirect grants and changes to some of the management rules given the insufficient enforcement measures within the Division of Revenue Act.