2023 BUDGET REVIEW

ANNEXURES

Three 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
- Annexure W3: Eskom debt relief

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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2023 BUDGET REVIEW

REPORT OF THE MINISTER OF FINANCE TO PARLIAMENT

national treasury

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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, the National Assembly committees 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 the department's service delivery performance given available resources.
- Must provide an assessment of 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 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 do so. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities. In addition, measures to reduce inefficiency and waste must be implemented by all accounting officers to improve value-for-money.

PORTFOLIO COMMITTEE ON EMPLOYMENT AND LABOUR

The committee receives regular updates on engagements between Department of Employment and Labour and the National Treasury on preferential procurement status of the Sheltered Employment Enterprises (SEE).

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 because the previous one done in 2012 is outdated. 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.

The Commission for Conciliation, Mediation and Arbitration (CCMA) should be sufficiently resourced in order for it to respond effectively to its mandate of dispute resolution.

The CCMA has been allocated an additional R120 million over the 2022 medium-term expenditure framework (MTEF) period to cover the costs related to the increased dispute resolution caseload. The CCMA, like all government departments and entities, is expected to cover spending pressures within its baseline through cost containment and reprioritisation. For example, the CCMA should review its performance bonus policy and consider aligning its salary structure and scales with that of the public service.

PORTFOLIO COMMITTEE ON HIGHER EDUCATION, SCIENCE AND TECHNOLOGY

The Department of Higher Education and Training needs additional funding to increase the enrolment of students in the Technical and Vocational Education and Training (TVET) and Community Education and Training (CET) sectors. Even though the budget of the department is projected to increase over the MTEF period, it remains inadequate to meet the National Development Plan targets for enrolment in the TVET and CET sectors and also inadequate to address the funding needs of the missing middle and postgraduate students who are unable to secure funding from other bursaries.

Enrolments in the TVET and CET sectors have been below the set targets over the past three years even after the targets were reduced. The low enrolments are related to concerns about the quality and relevance of the programme offerings. Over the 2023 MTEF period, R13.3 billion is allocated for TVET subsidies, growing at an average annual rate of 2.5 per cent. An amount of R667.3 million is allocated to subsidies for CET colleges over the same period, growing at an average annual rate of 2.4 per cent. Cabinet is engaging with the input from the Ministerial Task Team on Student Funding to find a sustainable solution to the increasing demand to provide funding for fee-free higher education to the missing middle and postgraduate students.

The department's cost pressures and unfunded priorities amount to R12.6 billion over the MTEF period. Notwithstanding the current fiscal constraints, the committee recommends that consideration be made to allocate additional funding to the department to meet its objectives. Spending on priorities of the Post-School Education and Training (PSET) policy is an investment in human capital and is critical for sustainable development.

Most departments in government have regularly indicated pressure arising from unfunded priorities. This highlights the need for departments to work with the National Treasury to assess their existing baselines and improve efficiency. It also highlights the need to avoid making unfunded commitments. Given the current constrained fiscal context, no additional funds are available to increase the baseline. The department is advised to reprioritise funds to fund emerging priorities.

The department should review the subsidy allocated to the Council on Higher Education (CHE) since it is unable to fulfil its objectives. The entity relies on the utilisation of its roll-over funds to meet some *key performance indicators, and this is not sustainable. The entity is also unable to fund its revised organisational structure due to limited funding.*

This recommendation has been referred to the Department of Higher Education and Training.

Additional funding should be considered for the Quality Council for Trades and Occupations (QCTO) to fulfil its mandate in line with its revised organisational structure and additional mandate of taking over the quality assurance role of the Sector Education and Training Authorities (SETAs). Thus, the approval of its business case and the review of the SETA grant regulations to address the QCTO funding requirements should be expedited.

Departments and public entities are advised to reprioritise funds within their existing baselines to fund emerging priorities. At the same time, departments need to consider more efficient alternatives and innovative solutions to delivering their mandate within the constrained budget. The QCTO realised a cash surplus of R70.4 million in 2021/22, which it can use to cover any shortfalls in delivering its mandate.

The Minister continues his efforts with National Treasury, the private sector and international partners to secure additional funding for the science and innovation portfolio.

Over the 2023 MTEF period, the National Treasury, through the Budget Facility for Infrastructure, has allocated an additional R1.2 billion to the South African National Space Agency for the Space Infrastructure Hub project and an additional R1.3 billion to the South African Radio Astronomy Observatory to expand the Square Kilometre Array project. Policy priorities in the science and innovation sector will need to be met through reallocations and reprioritisation. An interdepartmental task team has been established to improve planning and budget coordination of science, technology and innovation.

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 in a phased manner.

PORTFOLIO COMMITTEE ON WOMEN, YOUTH AND PERSONS WITH DISABILITIES

The committee requests the National Treasury to consider the condonation requests by the Department of Women, Youth and Persons with Disabilities and the Commission for Gender Equality (CGE).

Condonation requests are addressed in line with the irregular expenditure framework. The requirements of the framework will be applied when a request is 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.

Requests for rollovers are considered by a 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. Requests that do not meet the criteria stipulated in this or other regulations are not recommended.

PORTFOLIO COMMITTEE ON AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

The Minister of Finance should assist the Department of Agriculture, Land Reform and Rural Development to fast track the implementation of the Electronic Deeds Registration System (e-DRS), which will digitise and modernise the entity's deeds registration process.

In 2021/22 and 2022/23, the National Treasury granted approval for the Deeds Registration Trading Entity to retain its accumulated surplus of R93.3 million and R98.8 million, respectively, mainly for implementing the e-DRS. In addition, the National Treasury approved the entity's request to revise the schedule of fees it charges in terms of Regulation 84 of the Deeds Registries Act (1937) by 6.9 per cent. This revision took effect from 1 April 2022.

PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES

The committee recommends that the Minister of Finance should consider recapitalising Denel in order to safeguard the strategic and sovereign defence capabilities of the state and repurpose the advanced manufacturing capabilities of Denel to enhance the capacity of the state in responding to the escalating challenges of safety and security, health and broader industrialisation initiatives.

Since 2019/20, government has provided R5.8 billion to recapitalise Denel. The 2022 MTBPS noted that Denel would be allocated R204.7 million to reduce its contingent liabilities arising from its weak financial position and R3.4 billion to complete its turnaround plan, provided it met the attached conditions. Although it has received the first amount of R204.7 million, it has not yet met the conditions for the R3.4 billion. Other key strategic and operational matters fall within the mandate of the Department of Public Enterprises.

The committee further recommends that the Minister of Finance should consider creating an enabling environment to encourage public-public partnerships, where government departments and state-owned companies can collaborate to leverage on the capacity of the state. Secondly, government departments should be encouraged to use the services of state agencies and state owned companies. It is our view that Denel would be self-sustainable if its industrial and advanced manufacturing capabilities were used to produce vehicles and advanced technologies to enhance the work of the police and other departments.

The recommendation is noted. The private-sector participation framework, endorsed by Cabinet in 2016, outlines financing strategies to enable infrastructure investments and considerations for state-owned enterprises to partner with private sector companies. Overall, Cabinet determines the strategic focus of state-owned enterprises and continuously deliberates on any reforms in this regard under the guidance of the Minister of Public Enterprises.

PORTFOLIO COMMITTEE ON TOURISM

The National Treasury should appropriate a ring-fenced budget that will be used to develop, enhance and market domestic tourism which is a cornerstone for successful tourism destinations.

The National Treasury continues to engage departments on funding-related issues during the annual budget process. To support the tourism sector's recovery, the Department of Tourism has reprioritised R540 million over the 2022 MTEF period to establish the Tourism Equity Fund.

The committee recommends that the National Treasury appropriates budget that will allow sector recovery and assists in surpassing the 2019 performance levels before the advent of the COVID-19 pandemic.

The committee made a similar recommendation in the 2022 Budget. The National Treasury will continue to engage the Department of Tourism on funding-related issues during the annual budget process and support efforts to enable the recovery of the tourism sector. As noted, the Department of Tourism has reprioritised R540 million over the 2022 MTEF period to establish the Tourism Equity Fund and support the tourism sector's recovery. In addition, the department is allocated R180 million over the next three years to support the piloting of the Tourism Equity Fund introduced in 2021.

PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS

The committee expresses its disappointment with the Department of Defence not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The committee recommends that the department reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers. Subject to this reprioritisation being carried out and spent successfully, the committee then recommends further ring-fenced allocations for border safeguarding technology by National Treasury for the outer years of the 2023 MTEF.

The National Treasury agrees with this recommendation. The Department of Defence is allocated additional funding of R500 million in 2024/25 and R200 million in 2025/26 to procure equipment and technology to aid the safeguarding of borders. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.

As in the Portfolio Committee on Defence and Military Veterans' BRRR [budgetary review and recommendation report] recommendations to the National Treasury in 2019, 2020 and 2021, the committee again recommends a ring-fenced allocation for the midlife upgrades of the SA Navy frigates and submarines. The committee is suggesting a staggered approach in this regard to limit the fiscal impact, but one that would ensure the midlife upgrades of all frigates and submarines over, for example, the next 7 to 10 years, starting in 2023/24. This will allow the SA Navy to appropriately plan vessel availability, adjust its sea-hour targets accordingly and report more accurately to Parliament. It would also add significant capacity in terms of maritime security which is currently characterised by very limited naval patrols.

Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R500 million in 2023/24, R441 million in 2024/25 and R480 million in 2025/26 for the midlife upgrades of the South African Navy's frigates and submarines. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.

The committee is concerned about the ability of the South African Air Force to effectively provide logistical and reinforcement support to the South African National Defence Force members deployed outside South Africa due to limited strategic airlift capacity. The Committee therefore recommends an urgent ring-fenced allocation to address the strategic airlift shortcomings in the South African Air Force.

Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R1 billion in 2023/24 to strengthen the country's airlift transport capability. This earmarked allocation may not be used for any other purposes. Any changes to the allocated amount will require the National Treasury's approval.

The committee is concerned about the stagnation and lack of investment in the SANDF [South African National Defence Force] landward defence capability, notably the SA Army's Infantry capability. This factor has been worsened by the non-finalisation of Project Hoefyster. The committee therefore recommends engagement between the National Treasury, the Department of Defence and Armscor to consider further funding for Phase 2 of Project Hoefyster or, should this not be feasible, the upgrading of the current Ratel fleet to extend its serviceability. The National Treasury, the Department of Defence and Armscor should jointly report back to this committee on the envisaged plan to address the infantry capability constraints. These plans should be included in the department's and Armscor's Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.

The National Treasury notes the committee's concerns. To date, government has invested R7.4 billion in Project Hoefyster. This project was supposed to acquire 264 infantry fighting vehicles to partially replace the old Ratel fleet, but these vehicles have yet to be delivered. The National Treasury is open to engagement with the Department of Defence and Armscor on the feasibility of the project.

The committee wishes to note to National Treasury that the SANDF's Mobility Packages being utilised for border safeguarding have been in use since 2017 and may soon reach the end of their lifespan. Given the ongoing role of the SANDF in border safeguarding, the committee highlights the need for the Department of Defence and the National Treasury to jointly plan for upcoming expenses in this regard towards the end of the 2023 MTEF and beyond. The committee also wishes to reiterate that the current Mobility Packages were considered an interim solution and any future joint planning by the department and the National Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.

The National Treasury notes the committee's recommendation. Over the 2023 MTEF period, the National Treasury has allocated R700 million to procure helicopters, vehicles and technology for border safeguarding. The Department of Defence is responsible for the procurement of vehicles or mobility packages that will improve border safeguarding over the long term.

PORTFOLIO COMMITTEE ON JUSTICE AND CORRECTIONAL SERVICES

The committee expressed concern over budget reductions and has recommended that adequate funding be allocated to the Department of Justice and Constitutional Development, its entities and related Chapter 9 institutions.

The National Treasury notes the committee's concern. Since the 2022 Budget, no reductions have been made to the baselines of the department, its entities and related Chapter 9 institutions. Instead, the department has received additional allocations totalling R3.7 billion, the majority of which was allocated to the National Prosecuting Authority to strengthen capacity and advance the recommendations of the State Capture Commission. In addition, funds are provided to Legal Aid South Africa to appoint legal practitioners to service specialised commercial crimes courts, the Information Regulator to grow its establishment and effectively discharge its legislative mandate, the Public Protector and the South African Human Rights Commission to increase capacity and finance once-off information and communications technology, and the Special Investigating Unit to initiate civil litigation in the special tribunal flowing from proclamations that tie into the recommendations of the State Capture Commission for investigation.

PORTFOLIO COMMITTEE ON POLICE

The committee recommends that the National Treasury should review its decision to disallow the recruitment of additional personnel and that the South African Police Service (SAPS) should be adequately resourced, especially in terms of personnel, to execute its mandate. It is recommended that 10 000 recruits be allowed for the 2023/24 financial year.

The National Treasury does not have a provision in place that disallows SAPS from recruiting additional personnel. SAPS needs to fill its vacant funded posts or appoint additional personnel in line with its human resource budget plan and cannot exceed its allocated budget for compensation of employees. SAPS was allocated R5.8 billion over the 2022 MTEF period to appoint 12 000 police trainees, who will be hired as constables on completion of their training. In addition, SAPS will receive R7.8 billion over the 2023 MTEF period to appoint 15 000 police trainees. More than 7 000 trainees were recruited in 2022/23 and 10 000 trainees will be appointed in 2023/24.

The committee recommends that the National Treasury should increase the budget of the SAPS to employ additional personnel, especially qualified and skilled detectives. The National Treasury should consider ring-fencing this funding to ensure that it is spent as intended.

The National Treasury notes this recommendation. SAPS has indicated that 3 000 of the 15 000 police trainees to be appointed over the 2023 MTEF period will be appointed in detective services. In the 2020 Budget, the Directorate for Priority Crime Investigation in SAPS was allocated additional funding of R985 million to appoint investigators to strengthen its capacity and help address the case backlog.

The committee further recommends that ring fenced funds should be made available to adjust the service allowances of detectives to retain skilled personnel and attract new detectives.

As part of the 2023 MTEF budget discussions, the National Treasury raised concerns with departments and entities in the peace and security function about their challenges with staff moving across institutions for better remuneration. It was recommended that the conditions of service be standardised across the function to help retain skilled personnel.

The committee recommends that the National Treasury should consider an increase to the IPID's [Independent Police Investigative Directorate's] budget allocation for the 2022/23 financial year and that this should be taken into account during the budget adjustment period. Funds should be specifically made available for the appointment of IPID investigators to improve the ratio between police officers and IPID investigators.

Due to the constrained fiscal outlook, there is limited scope to provide additional funding. The IPID has not demonstrated that it has the capacity to fully spend its allocated budget. Generally, the department underspends its budget for compensation of employees due to vacant funded posts. Accordingly, the IPID will need to demonstrate improved capacity to fill its vacant funded posts and reduce its underspending on compensation of employees before additional funding is considered.

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 [broad-based black economic empowerment] compliance requirements in order to prevent future disputes during the audit process lined to these terms.

The committee made a similar recommendation in the 2022 Budget. 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 has dedicated officials that deal with queries from stakeholders and will continue to widely publish invitations for training that it offers. The process of getting B-BBEE certification lies outside the control of the National Treasury.

The Minister of Finance should 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 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.

PORTFOLIO COMMITTEE ON HOME AFFAIRS

The Minister of Home Affairs should urgently engage the Minister of Finance regarding the cutting of funding to the already constrained Department of Home Affairs which is operating at less than *half its ideal capacity, since it is significantly affecting service delivery, the correct statement of audit figures, as well as national security.*

The National Treasury notes the committee's recommendation. Over the medium term, the Department of Home Affairs will receive additional funding of R900 million for the Border Management Authority. In addition, R839.9 million is allocated in 2023/24 for the digitisation programme, of which R559.5 million is for compensation of employees and the remainder will be used to procure information and communications technology equipment and goods and services.

The committee recommends that the current provision of services to clients on Saturdays and after 4pm should be revived and expanded by the Department of Home Affairs in negotiation with the National Treasury for funding and trade unions for staff interests prior to the end of the 2019/20 financial year. Consideration, in this regard should be given to the lost productive time for learners, businesses and employees as well as the essential nature of the services.

The National Treasury has referred this recommendation to the Department of Home Affairs. Funding requests from departments for specific projects are dealt with through the annual budget process and presented in Parliament for consideration.

PORTFOLIO COMMITTEE ON PUBLIC SERVICE AND ADMINISTRATION

The National School of Government (NSG) together with the Department of Public Service and Administration (DPSA) should continue to engage the National Treasury in exploring alternative funding methods to ensure that the NSG is self-sustainable in the future years. The School's proposal should be allowed by the National Treasury and the Cabinet which seek government departments including local government to set aside a particular percentage of their training budget to fund the NSG training courses.

The DPSA, in collaboration with the NSG, is consulting the National Treasury on developing a directive on compulsory training programmes for the public service. The National Treasury has commented on the draft directive and advised the DPSA and the NSG on the feasible funding mechanisms for the proposed training programmes. Furthermore, the National Treasury has highlighted the importance of formulating the provisions of the directive in a manner that is consistent with the requirements of the Public Finance Management Act (1999) on the powers and responsibilities of accounting officers and the requirements of the supply chain or procurement management system. The National Treasury has also highlighted the legislative processes or arrangements that need to be followed for the NSG to be accorded a sole training provider status. Through the annual budget process, the National Treasury will continue to work with the DPSA and the NSG as they develop training policy mechanisms and funding mechanisms for the NSG.

RECOMMENDATIONS OF THE STANDING AND SELECT COMMITTEES ON FINANCE ON THE 2022 REVISED AND PROPOSED FISCAL FRAMEWORK

The Committee notes the concern from some stakeholders that the 2022 MTBPS continues with the austerity started in the 2022 Budget. The Committee understands the arguments by stakeholders on austerity to be informed by the fiscal consolidation path of government of the last few years as headlined by spending cuts or spending increases that are below inflation, with declining headcounts *and no credible measures to deal with the rising unemployment, poverty and inequality. The Committee recommends that the National Treasury should report to the Committee the extent to which the previously adopted countercyclical fiscal policy and fiscal consolidation have been effective in stabilising the fiscal framework.*

The National Treasury notes the concerns raised by stakeholders. The 2022 MTBPS outlined additional resources for health, education, free basic services, infrastructure, and safety and security. The social wage was protected and no spending reductions were proposed. The 2022 MTBPS estimated that gross loan debt would stabilise and a primary budget surplus would be achieved in 2022/23, showing that fiscal policy is achieving its objectives. Nevertheless, risks to the fiscal outlook are substantial, including due to a rise in debt and likely effects of the takeover of Eskom debt as announced in the 2022 MTBPS. Chapter 3 discusses fiscal policy in more detail.

While NT is adamant that the 2022 MTBPS, and the Budget in general, is pro-poor, more and more people are unemployed and are trapped in poverty and inequality. The Committee remains extremely concerned about this, especially in the light of an economic growth rate that is too low to address poverty, inequality and unemployment challenges. The Committee recommends that the Budget should consider far more the impact of the high cost of living on the economy, particularly on the poor households.

The National Treasury notes the committee's recommendation. It is important to note that fiscal policy alone cannot solve the challenges of poverty and unemployment. The economic outlook is determined by a variety of factors that are mostly not in the control of fiscal policies. Nevertheless, the 2023 Budget continues to allocate the majority of spending to the social wage, which supports poorer households. In addition, the combined impact of structural reforms, support for small business and new infrastructure investment will enable higher rates of growth and job creation over the long term.

The Committee notes the submissions made by the stakeholders regarding increasing the social grants and is sympathetic to them. The Committee also welcomes the extension of the SRD [social relief of distress] grant by another year. Given the consequences of Covid-19, the July 2021 social unrest, the KZN floods and the increased poverty, inequality and job losses, the unemployed and poor need to be cushioned more. The Committee reiterates its previous position that the National Treasury and government should seriously consider a Basic Income Grant (BIG).

The National Treasury, together with partner departments, is reviewing options to provide appropriate social protection measures for the working-age population that can replace or complement the current *COVID-19 social relief of distress grant.* Any permanent increase in expenditure, such as a new social grant, will need to be matched by permanent revenue increases or spending reductions elsewhere.

While the National Treasury expects gross loan debt to stabilise at 71.4 per cent of GDP in 2022/23, which is two years earlier and at a lower level than projected in the 2022 Budget Review, the Committee remains concerned about the high levels of the debt. The Committee reiterates its recommendation that the National Treasury reports quarterly to it on the effectiveness of its debt management strategies that would ensure that the level of debt stabilises over the medium term as *expected and that extra-budgetary costs and contingent liabilities do not increase the debt levels further.*

The National Treasury shares the Committee's concerns about the levels of debt. The National Treasury publishes an annual debt management report and information on outstanding debt on the investor relations website: http://investor.treasury.gov.za/pages/default.aspx. In addition, in line with section 32 of the Public Finance Management Act, the National Treasury provides monthly statements on revenue, expenditure and borrowing compared to the budget on its website. The *Budget Review* and MTBPS provide insight on the medium-term fiscal strategy, as discussed in Chapter 3.

The Committee notes, with great concern, the significant risks to the fiscal framework and the fact that the National Treasury confirmed that the risks previously identified in the 2022 Budget have already materialised. The continued bailout of SOEs [state-owned enterprises] undermines government's fiscal stabilisation efforts. The Committee recommends that the bailing out of SOEs, which is one of the biggest risks to the fiscus, should be subject to stringent conditions and accountability measures. In this regard, the Committee notes the proposed conditional allocations to public entities such as Denel, SANRAL and Transnet in order to reduce contingent liabilities and enable these entities to continue supporting economic growth. The Committee recommends a similar approach as far as possible be taken on all SOE bail-outs.

The National Treasury agrees with these recommendations. Chapter 8 discusses the new framework for state-owned companies, which will support the implementation of these recommendations.

The Committee further recommends that the National Treasury should consider South African Institute of Chartered Accountants [SAICA] and Financial and Fiscal Commission [FFC] recommendations on SOEs, which include a focus on operational deficiencies and proper management of procurement, contracts and payments, a risk-based approach to government guarantees and that a differentiation be made between repair and maintenance spending versus funding for new infrastructure.

The National Treasury notes this recommendation. SAICA and FFC recommendations on operational deficiencies will be considered as part of the operational conditions for providing financial support to state-owned companies.

Since November 2021, the South African Reserve Bank has hiked the repurchase (repo) rate by 275 basis points with the intention of maintaining price stability amid raging inflation. While inflation targeting falls within the ambit of the South African Reserve Bank (SARB), the Committee is concerned about the impact of the continued tightening of monetary policy and the impact of this on the cost of living, particularly for the poor and unemployed. The Committee however understands that there are global pressures as other central banks are tightening their monetary policy in response to inflation in their jurisdictions. The Committee believes that there is however a need for far more effective coordination between the fiscal and monetary policies and recommends that the National Treasury considers the FFC's view that "if fiscal policy is credible and sustainable, that would remove pressure from the monetary policy or on the SARB to hike interest rates". The Committee will also engage with SARB in order to understand if there are no other favourable policy alternatives *that could be implemented, within the constitutional and legislative mandate of SARB, which would not involve the aggressive hiking of the repo rate.*

Stable fiscal policy is a necessary condition for reducing pressure on monetary policy, particularly in a small open economy such as South Africa. At the same time, it is not a sufficient condition for eliminating it altogether. The National Treasury, in consultation with the Reserve Bank, sets the inflation target, which acts as a benchmark against which price stability is measured. The Reserve Bank then independently sets monetary policy to achieve this target. Fiscal policy and monetary policy both contribute to a stable macroeconomic framework to support investment, economic growth and job creation. The Reserve Bank considers many factors in its decision-making process. Fiscal policy remains focused on stabilising public debt and ensuring sustainable public finances in support of macroeconomic stability. At the same time, government enables economic and social development by maintaining a prudent fiscal stance, directing resources towards infrastructure, contributing to energy reforms and supporting the social wage.

In the 2022 Budget Speech in February, the Minister of Finance stated that he had agreed with the Minister of Minerals and Energy to review all aspects of the fuel price. The Committee further notes and welcomes the fuel levy relief announced by the two Ministers in March and May 2022, with the aim of alleviating pressure of the rising fuel costs on households. The Committee requires that the Minister of Finance reports back to it on progress made in reviewing all aspects of the fuel price regime.

The Minister of Finance has committed to reviewing the Road Accident Fund levy. The recommendation has been referred to the Department of Mineral Resources and Energy, which is responsible for reviewing the fuel price.

The Committee notes that the 2022 MTBPS does not appear to have explicitly budgeted for fighting corruption and Gender Based Violence (GBV) while the levels of crime in the country are increasing. The Committee also notes concerns from stakeholders in this regard and urges the National Treasury to explicitly consider these issues in the budget and the budget process.

The 2022 MTBPS included proposals for resources to fight corruption and crime over the medium-term. Over the next three years, SAPS will use funding allocated to the visible policing programme to strengthen its capacity to respond to gender-based violence. Over the same period, the Department of Justice and Constitutional Development is strengthening its focus on gender by establishing 109 sexual offences courts at designated courts and improving the management of the national register for sex offenders to ensure that all people working with vulnerable people are vetted. The department has allocated R27.5 million over the MTEF period to increase capacity in Thuthuzela care centres.

The Committee reiterates its concerns about NT's very late introduction of the (anti-money laundering and counter-terrorism financing) bills to Parliament and notes that despite the potential greylisting of South Africa by FATF [Financial Action Task Force] and the dire impact on the economy that this outcome could have, particularly on foreign direct investment, the exchange rate, access to corresponding banking and cross-border trade, the 2022 MTBPS neither mentions this as a risk to the fiscus in its risk statement nor analyse its potential impact over the medium-term. The Committee urges NT to consider the impact that greylisting may have on the 2022 proposed fiscal framework.

A multi-disciplinary effort under the leadership of the National Treasury is heavily focused on avoiding grey listing. As noted in the 2022 MTBPS, maintaining the integrity of South Africa's financial system is critical to long-term growth. Government is addressing deficiencies in the anti-money laundering framework identified by the Financial Action Task Force. These changes are intended to reduce the risk and incidence of financial crime and corruption, and to avoid grey listing. Over the 2023 MTEF period, functions critical to the anti-money laundering regime, particularly in the law enforcement agencies and the Financial Intelligence Centre, will receive additional resources to carry out this work.

The Committee is concerned that there appears to be lack of understanding of the future of the Gauteng e-tolls. While the public seems to believe that the e-tolls have been scrapped, clarification was provided that a new funding model was being proposed to fund the e-tolls. The Committee requires the Minister of Finance to provide a written response on this after adoption of this report.

As announced in the 2022 MTBPS speech, government is taking over the costs associated with upgrading and maintaining phase 1 of the Gauteng Freeway Improvement Programme from users. The new funding model for this system is the financing arrangements between national government and the Gauteng provincial government. This is not national government's preferred option, and the policy position is that direct road user charges remain the most efficient, effective and equitable financing mechanism. The provincial government will contribute to the costs associated with this infrastructure investment.

The Committee recommends, as it has in its previous reports, that the Public Procurement Bill be tabled in Parliament for processing. The Committee believes that delays in tabling and processing this Bill compromises transformation and localisation (procurement of locally produced goods.) In compliance with section 217 of the Constitution, the Committee believes that black economic empowerment, youth, women, and people living with disabilities should be given preference when procuring.

It is envisaged that the bill will be tabled in Parliament in March 2023 once all other legislative processes are finalised. Currently, the bill is undergoing legal vetting by the Office of the Chief State Law Adviser and a socioeconomic impact assessment by the Presidency.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2022 MTBPS AND ADJUSTMENTS APPROPRIATION BILL

That the Minister of Finance and the Presidential Management Office ensure that the funds allocated towards the Presidential Employment 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.

The Minister of Finance, working with all affected stakeholders, ensures that National Treasury speedily releases disaster relief funding in order to minimise the social and economic impact of affected communities.

The National Treasury has noted with concern the slow pace of disaster response and the slow pace of the release of funds by the national departments to the provinces and municipalities. In this regard, it is important to highlight that funds are released based on the payment schedule submitted by the responsible transferring officer and approved by the National Treasury. The accounting officers of departments that have disaster relief funding on their budgets are responsible for releasing funding in line with the legal requirements. Where disaster relief funding is disbursed in terms of a conditional grant, the relevant accounting officer and the relevant receiving officer (province or municipality) are obligated to comply with grant conditions in terms of the Division of Revenue Act. In the meantime, the National Treasury will continue working with counterparts to address the efficiency of disaster responses.

That the Minister of Finance, working with all stakeholders, ensures that National Treasury provides for a transparent process regarding fiscal support to SOCs [state-owned companies], reports should be made public, including the establishment of SOC governance framework with public reporting criteria that clearly defines detailed and precise profitability and non-financial objectives for transparency.

The National Treasury provides quarterly updates to Parliament (Standard Chart of Accounts) on the broad-based financial performance of schedule 2 public entities.

Small businesses are very important for economic development, recovery and employment creation. The Committee urges the Minister of Finance to substantially increase the budget of this Department of Small Business Development during the 2023 national budget. This will ensure that Department of Small Business Development plays its critical role in the economy.

The Department of Small Business Development is allocated R8.1 billion over the next three years. Over the medium term, R2.7 billion has been allocated to the department's Small Enterprise Development Agency to support small businesses. Additional support of R280 million over the MTEF period will be provided to small businesses through incentives provided by the department. The National Treasury will continue to review the budget of the department, including to identify opportunities for better prioritisation and improved efficiency.

Economic transformation and Broad-Based Black Economic Empowerment are Constitutional imperatives. We urge the Minister of Finance to announce funding in the 2023 national budget for this purpose.

Government promotes economic transformation and empowerment through a range of policies, including incentive programmes dedicated to black-owned enterprises such as the Black Industrialists Scheme. The Department of Trade, Industry and Competition uses incentive programmes to encourage beneficiaries to procure their raw materials from black-owned businesses. The Industrial Development Corporation is facilitating funding amounting to R22 billion towards black industrialists by 2025/26. The National Empowerment Fund aims to disburse R4.7 billion by 2025/26 towards black-owned and women-owned businesses. Government uses public procurement policy to increase its spending on historically disadvantaged individuals. Furthermore, competition policy is aimed at unlocking opportunities for economic participation by historically disadvantaged individuals.

The Committee urges the Minister of Finance to finalise the Public Procurement Bill with explicit localisation and economic empowerment imperatives.

The National Treasury notes the recommendation. It is envisaged that the bill will be tabled in Parliament in March 2023 once all other legislative processes are finalised. Currently, the bill is undergoing legal vetting by the Office of the Chief State Law Adviser and a socioeconomic impact assessment by the Presidency. The National Treasury included a chapter on preferential procurement with enabling provisions covering locally manufactured goods and preferences in the allocation of contracts to support historically disadvantaged people.

The Committee welcomes the extension of the SRD grant with one more year. However, to create certainty for the Department of Social Development and South African Social Security Agency, the Committee recommends the extension of SRD grant for the next three years while a permanent security programme is being finalised.

The National Treasury notes the recommendation. Government is reviewing options for social protection alternatives to the grant. Further extensions of the grant need to be funded through spending reprioritisation, increased revenue or a combination of the two.

The South African Post Office (SAPO) plays a crucial role in the economy of South Africa, especially among the poorest of the poor. There is a need for recapitalisation of SAPO and the Minister of Finance, in consultation with the Minister of Communication and Digital Technologies, should finalise the recapitalisation strategy and present this in the 2023 national budget.

The South African Post Office was allocated a cumulative amount of over R7.3 billion between 2016/17 and 2018/19. Despite these equity injections, SAPO has not emerged from its present financial weakness. In this regard, the National Treasury has engaged with the Department of Communications and Digital Technologies to finalise a credible turnaround plan for the entity. In the meantime, a R2.4 billion allocation for the South African Post Office is included in the second adjustments appropriation bill tabled.

That the Minister of Finance ensures that National Treasury strictly implement all conditions on the proposed allocation to Sanral SOC Limited, Denel SOC Limited and Transnet SOC Limited. Furthermore, the Minister of Finance must ensure that National Treasury produces regular quarterly reports to Parliament on the implementation [of] these conditions and the disbursement of the proposed allocations as envisaged on the Bill.

The National Treasury notes the recommendation and will provide presentations and quarterly reports where required.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE AMENDMENT BILL

That the Minister of Finance ensures that National Treasury corrects its proposed changes to the conditional grants framework in line with Section 15(2) of the 2022 Division of Revenue Act.

The changes were gazetted as part of Government Gazette No. 47987 of 3 February 2023.

The Minister of Cooperative Governance and Traditional Affairs ensures that disaster Management Centre closely monitor funding allocated for disaster relief and ensures that these relief packages are clearly communicated to affected communities.

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

The Minister of Cooperative Governance and Traditional Affairs must ensure that the eThekwini Metropolitan Municipality effectively and speedily spend the proposed R92 million towards the procurement of identified land for the relocation of floods victims who were previously residing in informal settlements that were washed away by the April 2022 floods.

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

The Minister of Cooperative Governance and Traditional Affairs and the Minister of Public Works and Infrastructure ensures that both the Department of Public Works and Infrastructure and the Department of Cooperative Governance and Traditional Affairs assess available government land that can be used for the relocation of the April 2022 floods and report to Parliament.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs and the Minister of Public Works and Infrastructure.

The Minister of Finance, working with all affected stakeholders, ensures that National Treasury speedily releases disaster relief funding in order to minimise the social and economic impact of affected communities.

The funds are released based on the payment schedule submitted by the responsible transferring officer and approved by the National Treasury. The National Treasury notes that the slow release of funds is due to poor internal processes within departments and ineffective intergovernmental cooperation. In this regard, disaster funds already allocated to departments need to be efficiently but judiciously released.

The Minister of Finance ensures that National Treasury periodically audit how disaster relief funds are spent, and or whether these funds are efficiently utilised for the benefit of affected communities. Given the number of recent disasters and the funds allocated towards disaster relief, the Committee is concerned and doesn't want to again be informed of any level of corruption like what was found during the COVID-19 related funding. Where there is a suspicion of corruption elements, National Treasury should quickly intervene and immediately report such to the law enforcement agencies.

The National Treasury periodically monitors all funds transferred to subnational government. However, sector departments are responsible for both financial and non-financial monitoring of these funds and should intervene timeously if there is non-compliance. The authority to audit programmes lies with the Auditor-General of South Africa, who has already undertaken a series of special audits related to disaster relief.

The Minister of Basic Education ensures that the Department of Basic Education closely monitor the reconstruction and rehabilitation of public schools that were affected by the December 2021 and April 2022 in the Eastern Cape and KwaZulu-Natal Provinces. The Minister must ensure that the

Department provides quarterly expenditure and progress report on the reconstruction and rehabilitation of these affected schools.

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

The Minister of Transport ensures that the Department of Transport closely monitor the proposed R1 billion allocations for the provincial roads maintenance grant for the repairs of provincial roads that were affected by the April 2022 floods and quarterly report to the Committee on progress made with regard to the repairs of the affected roads in Eastern Cape, North West and KwaZulu-Natal Provinces.

The National Treasury has referred this recommendation to the Minister of Transport.

RECOMMENDATIONS OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE ADJUSTMENTS APPROPRIATION BILL

The Minister of Finance should gazette the proposed additional funding allocations, with clear conditions, as indicated in the Special Appropriation Bill [B24 – 2022], amounting to R23.7 billion for the South African National Roads Agency (Sanral) for repayment of its maturing debt and debt-related obligations, R3.4 billion for Denel SOE Limited (Denel) for the implementation of its turnaround plan, and R2.9 billion for Transnet SOE Limited (Transnet) for the acceleration of the repair and maintenance of locomotives.

The conditions have been shared with the Speaker of the National Assembly and the Chairperson of the Select Committee on Appropriations.

The Minister of Finance, together with the Minister of Public Enterprises and the Minister of Transport, should ensure that the pre- and post-conditions prescribed for the bail-outs are fully complied with, and that clear consequences are explicitly outlined as part of such conditions; so that appropriate action will be taken against the transgressor in the case of non-compliance. Furthermore, the Committee is of the view that, in order to encourage transparency in public finances, any bail-out must have conditions that are publicly available for continuous accountability and oversight.

The National Treasury agrees with the recommendation and has set up oversight teams to monitor progress on the implementation of the bailout conditions. Spending that is inconsistent with the purpose of or the conditions associated with the allocations may be deemed irregular expenditure. In terms of sections 38 and 51 of the Public Finance Management Act, irregular expenditure may be deemed financial misconduct. The associated sanction in terms of the Public Finance Management Act and the Public Audit Act (2004) will apply in these circumstances.

The Minister of Finance, together with the Minister of Public Enterprises and the Minister of Transport, should ensure that all additional funds earmarked for their respective departments are spent according to the approved plans and within the ambit of the Special Appropriation Bill [B24 – 2022], and ensure that clear internal controls and financial management systems are put in place to prevent poor, wasteful and fruitless expenditure, and that consequence management is enforced. Parliament will continue to monitor the implementation and expenditure of such allocations through *regular in-year monitoring by sector committees and the section 32 reports required by the Public Finance Management Act No.1 of 1999.*

The National Treasury has set up oversight teams to monitor progress on the implementation of the bailout conditions. For Denel and Transnet, no funds can be disbursed without evidence that the conditions have been met.

Whilst recognising the need for government to intervene where there is market failure, the Committee believes that the provision of continuous financial support to state-owned entities (SOEs) directly from the fiscus will continue to compromise social programmes for the poor and other developmental obligations. As part of the overall SOE turnaround strategy, the Committee is calling for concrete steps to be taken by the Department of Public Enterprises, the National Treasury, the Department of Transport and other departments with ailing public entities to strengthen oversight, leadership capacity/boards of directors and financial management capacity, and to ensure the appointment of suitably qualified and experienced officials to turn around the balance sheets of these entities within a reasonable period of time after the adoption of this Report by the House.

The National Treasury has referred this recommendation to the Minister of Public Enterprises and Minister of Transport, who are responsible for appointing board members and executive management in the state-owned enterprises within their departments. While the National Treasury has oversight responsibilities over the state-owned enterprises, the boards and executive management of the entities have the fiduciary responsibilities. Furthermore, the shareholder departments play a leading role in turning around the entities.

The Committee does not encourage the tabling of special appropriation bills in Parliament, unless they are absolutely necessary and dictated by exceptional circumstances as it may signal budgeting challenges related to fiscal uncertainty. When these bills are introduced, it needs to be done timeously so that Parliament has sufficient time to engage with the public and process them accordingly.

The National Treasury notes this recommendation.

RECOMMENDATIONS OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE AMENDMENT BILL

The Minister of Finance should gazette the adjustment allocations in the Division of Revenue Amendment Bill [B22 – 2022] as tabled together with the Medium Term Budget Policy Statement (MTBPS) on 26 October 2022. These include the roll-overs, unforeseen and unavoidable expenditure, declared unspent funds, provisional allocations not earmarked for specific Votes, and provincial and local government changes to conditional grants and the equitable share. Furthermore, the gazette should include the proposed amendments to the following specific grant frameworks to allow for spending on disaster response in relation to the December 2021 and April 2022 floods and disasters:

- Provincial Roads Maintenance Grant, to allow for spending on rural bridges under the Welisizwe Rural Bridges Programme.
- Education Infrastructure Grant framework.
- Municipal Disaster Recovery Grant framework.

The National Treasury gazetted the proposed amendments to conditional grants to cater for the December 2021 and April 2022 floods and disasters on 3 February 2023.

The KwaZulu-Natal Province should put proper mechanisms in place to ensure that the additional R48.5 million allocated reaches the intended beneficiaries who are mostly the victims of the April 2022 floods; to provide formula and disposable nappies for babies; meals for people in shelters; payment for shelter-based social workers and supervisors; and the payment for the Shelters' Tracking System.

The National Treasury supports this recommendation.

The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs, should ensure prompt response when disasters happen, including transfer of the much-needed funds earmarked for disaster relief; and ensure the effective spending of the additional R3.3 billion to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by floods in the Western Cape, the Eastern Cape and KwaZulu-Natal.

The National Treasury shares concerns regarding the slow release of funds, and has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs. Funds are only released after the affected provinces or municipalities have submitted applications as per the Disaster Management Act (2002). The grant conditions set out the planning and reporting requirements to assist in monitoring and reviewing the performance of the disaster recovery programme.

The National Treasury, together with the Department of Human Settlements and the eThekwini Metropolitan Municipality, should expedite the process of relocating the victims of the April 2022 floods and disasters, which were residing in informal settlements in eThekwini. The Committee believes that the amendment of the framework of the Informal Settlements Upgrading Partnership Grant: Municipalities to ring-fence funds for the purchase of land identified for the relocation will assist to fast-track the process.

The National Treasury has referred this recommendation to the Minister of Human Settlements. The provincial department of human settlements and the municipality are responsible for implementing emergency housing programmes, as set out in the Housing Code.

Given the impact of the recent floods, the Committee recommends that government should consider providing municipalities with performance-based conditional grants, rewarding or incentivising programmes that are environmentally efficient and responsive to the adaptation and mitigation of the challenges of climate change.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs. The Disaster Management Act requires all organs of state to prevent and mitigate disasters, and this is also considered when funding is made available to respond to a disaster.

The National Treasury should correct the allocations and effect the required changes to the Municipal Disaster Recovery Grant (MDRG) framework to ensure that MDRG allocations are correctly allocated to the municipalities assigned for the function.

The correctly assigned allocations were gazetted in Government Gazette No. 47987 of 3 February 2023.

The Committee believes that a proper review with respect to local government transfers is necessary, especially from a vertical perspective of the division of revenue; taking into account the increasing number of dysfunctional and financially distressed municipalities, the factors of geography and rurality and the nature of local development; to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. Furthermore, this should include a proper re-examination of the assumptions in the Local Government White Paper, testing their applicability and relevancy, given the current situation.

The National Treasury notes this recommendation. The Technical Budget Forum, made up of the National Treasury, the Department of Cooperative Governance, the South African Local Government Association and the Financial and Fiscal Commission, is assessing the assumptions in the Local Government White Paper. The vertical division of revenue is considered and approved by Cabinet.

The Department of Health, together with its provincial counterparts, should ensure that the estimated 28 000 vacancies are filled, where funding is available, to address staff shortages in areas where sufficient health workers are required to be at an appropriate level of care. Furthermore, the departments should address the issues of increasing compensation of employees and medico-legal claims, given its negative impact on the consistent availability of medicines and other health essentials.

The National Treasury has referred this recommendation to the Minister of Health.

While the National Treasury, together with the Department of Health, continue to find ways to improve grant expenditure trends, the Committee urges both Departments to make more funds available in the 2023 budget for the Health Facility Revitalisation Grant to repair the health facilities destroyed in KwaZulu Natal and the Eastern Cape during the April 2022 floods. A progress report should be provided in this regard in the next budget cycle.

The National Treasury has referred this recommendation to the Minister of Health. Provinces applied for funding to reconstruct and rehabilitate schools and provincial roads, but not health facilities, following the April 2022 floods.

The Department of Communications and Digital Technologies should ensure that a clear plan is developed and implemented to address the issue of 6 000 Post Office workers who are about to lose their jobs; and that the issue of statutory payments, such as to the Unemployment Insurance Fund (UIF), medical aid schemes and pension funds, is also addressed. The Committee is of the view that failure to transfer statutory payments is unacceptable and consequence management must be implemented immediately. A progress report should be provided in this regard in the next budget cycle.

The National Treasury has referred this recommendation to the Minister of Communications and Digital Technologies.

The South African Local Government Association (Salga), together with the Department of Water Affairs, the Department of Cooperative Governance and Traditional Affairs, the University of Pretoria and the Development Bank of Southern Africa, should continue to intensify capacity building efforts *to assist municipalities to address infrastructure repairs and maintenance challenges, particularly with regards to water treatment plants to address sewage spillage in certain areas.*

The National Treasury has referred this recommendation to the Minister of Water and Sanitation, the Minister of Cooperative Governance and Traditional Affairs and SALGA.

With regards to the R30 billion bail-out to Sanral, Denel and Transnet, the Department of Public Enterprises, the Department of Transport and the National Treasury should be conscious of the fact that state-owned entities (SOEs) cannot rely on government financial support forever, even if it is financed through higher than anticipated revenues. The Committee is of the view that provision of continuous financial support to SOEs directly from the fiscus will continue to compromise social programmes for the poor and other developmental obligations. As part of the SOE turnaround strategy, the Committee is calling for concrete steps to be taken by the Department of Public Enterprise and the Department of Transport to strengthen oversight, leadership capacity/boards of directors and financial management capacity, and to ensure the appointment of suitably qualified and experienced officials to turn around the balance sheets of these entities within a reasonable period after the adoption of this Report by the House.

The National Treasury has referred this recommendation to the Minister of Public Enterprises and the Minister of Transport.

National Treasury, together with the Department of Women, Youth and Persons with Disabilities, should find a way to develop appropriate mechanisms to design and implement more gender-responsive budgeting, to address the scourge of gender-based violence in South Africa. This should include strengthening and capacitating gender-based violence desks at police stations, to ensure that such cases are resolved expeditiously.

The National Treasury is working with stakeholders including the Department of Women, Youth and Persons with Disabilities and the Department of Planning, Monitoring and Evaluation to develop a roadmap and tools to facilitate the implementation of gender-responsive budgeting across government. The National Treasury is leading an interdepartmental steering committee for gender-responsive budgeting with representatives from these three departments. Guidelines have been developed outlining the implementation of gender-responsive budgeting and these will be discussed with departments in 2023/24.

Whilst the Committee welcomes the extension of the Social Relief of Distress (SRD) Grant with a clear understanding that this was introduced as a temporary measure during the COVID-19 pandemic; the Committee implores the Department of Social Development to ensure that proper internal control systems are put in place to effectively manage and distribute the Grant; that criteria to ensure the Grant reaches all intended beneficiaries are continuously improved, given the uncertainty in the job market; and that any allegations of corruption are investigated and law enforcement agencies allowed to deal with such matters expeditiously.

The National Treasury has referred this recommendation to the Minister of Social Development.

RECOMMENDATIONS OF THE SELECT AND STANDING COMMITTEES ON APPROPRIATIONS ON THE SPECIAL APPROPRIATION BILL

The National Treasury should ensure that any movement of funds is approved according to the provisions of the Public Finance Management Act of 1999 and Treasury Regulations. However, the Committee does not support the movement of funds above 8 per cent, when it is as a result of poor planning and project management and unsatisfactory 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 and gazette in the Adjustments Appropriation Bill [B23 -2022] an adjusted amount of R12.9 billion, of which R6.4 billion (49 percent) goes to the Department of Cooperative Governance and the Department of Transport to address the April 2022 floods in KwaZulu-Natal and the Eastern Cape. The Committee implores both Departments to strengthen expenditure control and financial management systems to realise value for money.

The National Treasury notes the committee's recommendation. In the 2022 Adjustment Budget, the Department of Cooperative Governance and the Department of Transport received R3.6 billion and R1.8 billion, respectively. This was for the reconstruction and rehabilitation of municipal infrastructure as well as the maintenance of roads damaged by floods in KwaZulu-Natal and the Eastern Cape. The 2022 Adjustments Appropriation Bill has been enacted and gazetted accordingly. The National Treasury will continue to engage these departments to ensure that expenditure control and financial management systems are strengthened.

The National Treasury and the Department of Home Affairs should ensure that proper financial management controls and clear plans and milestones are developed and put in place for the spending of the proposed adjustment amount of R500 million for the digitisation project, to avoid wasteful and fruitless expenditure.

The National Treasury notes the committee's recommendation and will engage the Department of Home Affairs on aspects of the recommendation that are relevant to the department.

The National Treasury should approve and gazette the roll-over amount of R990.5 million, emanating from the Department of Agriculture, Land Reform and Rural Development and the Department of Communications and Digital Technologies. The Committee implores both Departments to develop clear and time-bound remedial actions, with specific targets, to address under-spending and improve service delivery performance, while ensuring project are completed on time.

The National Treasury notes the recommendation. Requests for rollovers are always considered within the parameters set by Treasury Regulation 6.4. In the 2022 Adjustment Budget, a rollover of R231 million was approved for the Department of Agriculture, Land Reform and Rural Development to provide inputs to smallholder farmers under the presidential employment initiative. In addition, a rollover of R200 million was approved in the 2022 Adjustment Budget for the Department of Communications and Digital Technologies for phase 2 of the presidential employment initiative.

The Department of Cooperative Governance and the National Disaster Management Centre (NDMC), together with National Treasury, should undertake a review of the disaster management and administrative processes in order to ensure rapid response and transfer of much-needed relief funds for victims; and to ensure quality standards when repairing and rebuilding damaged infrastructure, while ensuring that projects are completed on time. Parliament will continue to follow up on this.

The National Disaster Management Centre is reviewing the disaster management risk framework and expects to complete this by 31 March 2023.

The Committee implores the Department of Higher Education and Training and National Treasury to ensure that the issues of maladministration and corruption raised by the Auditor-General of South Africa (AGSA), which are negatively affecting the capacity of sector education and training authorities (SETAs) to deliver, are urgently addressed and consequence management implemented, where necessary. Parliament will continue to monitor progress.

The Minister of Higher Education, Science and Innovation is the executive authority to whom each of the SETA boards is accountable. The minister, through the Department of Higher Education and Training, must ensure that SETA boards, as the accounting authority, address all issues raised by the Auditor-General. The National Treasury will support the department in this regard when requested or where necessary.

The National Treasury and Department of Planning, Monitoring and Evaluation (DPME) should ensure that better alignment between performance targets and budget allocations is realised at a planning and budgeting phase, to ensure correlation between expenditure and performance targets achieved at the end of the year. Notwithstanding the fact that there is a need to improve planning, the Committee also believes that government should evaluate its programmes, and discard those that are continuously not bearing any results; instead of relying on incrementalism.

The National Treasury welcomes this recommendation. The National Treasury, together with the DPME, evaluates departmental annual performance plans and strategic plans to ensure the performance targets align with the budget allocated during the budget process. In 2021/22, the National Treasury, in consultation with departments, conducted several spending reviews to evaluate programmes and to encourage departments and other institutions to reprioritise funds within existing programmes to fund emerging priorities.

With regards to the Vaal River Pollution Remediation Project, the Department of Water Affairs and Sanitation, together with the National Treasury, should ensure that project planning for the Regional Bulk Infrastructure Grant projects is properly done timeously to avoid funds being rolled over to the next financial year or returned to the fiscus. The Committee believes that the failure to spend on infrastructure budgets continues to undermine government's commitment to implement an infrastructure-led economic recovery.

The National Treasury has referred this recommendation to the Department of Water Affairs and Sanitation.

The National Treasury, together with the Department of the Police, should ensure that adequate resources are allocated for detective services, and that planning is continuously improved for the

Integrated Criminal Justice Strategy (ICJS), to avoid non-expenditure, such as the R30 million, by the Department.

The National Treasury notes this recommendation. The detective services programme is allocated R66.3 billion over the MTEF period, of which R7 billion is allocated to the Directorate for Priority Crime Investigation. The National Treasury will continue working with the department to improve planning for the ICJS to avoid non-expenditure in 2023/24.

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

More resources should be set aside over the 2023 MTEF for safety and security, in order to increase police visibility, boost the investigation and prosecution of serious crimes, and safeguard the country's borders and seas, as well as for the implementation of the recommendations of the Zondo Commission of Inquiry into State Capture.

The National Treasury agrees with this recommendation. Over the 2023 MTEF period, the National Treasury has allocated the full amounts requested by the National Prosecuting Authority (R1.3 billion) and the Special Investigating Unit (R100 million) to implement the recommendations of the State Capture Commission. SAPS is allocated R7.8 billion over the period to improve capacity in police stations.

The National Treasury, together with its provincial counterparts, should ensure that mechanisms to continuously improve provincial conditional grant expenditure are implemented, as articulated in the conditional grant frameworks, to achieve value for money, particularly for the proposed additional grant funding earmarked through the Budget Facility for Infrastructure (BFI). These include funding for the Comprehensive Agricultural Support Programme (CASP) for KwaZulu-Natal, the Education Infrastructure Grant for Gauteng, the Provincial Roads Maintenance Grant for rural bridges, the National Health Insurance Indirect Grant for the Limpopo Central Hospital, as well as the Coega Development Corporation for water services in the Eastern Cape.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance, provincial departments of cooperative governance and the South African Local Government Association (Salga), should expedite the review of the capacity-building system for local government as well as the development of a multi-year programme to improve basic service delivery outcomes and cost effectiveness. The National Treasury should also fast-track the design of a revised programme and agree on an integrated approach to local government capability development for the 2023 MTEF.

The National Treasury supports the recommendation. The review was completed and recommendations reported on in the 2022 Budget. Government has developed a multi-year programme, which will be completed by March 2024, to improve the outcomes and cost-effectiveness of its capacity-building system. Several institutions are piloting the programme.

The National Treasury, together with the Department of Cooperative Governance, provincial treasuries and provincial cooperative governance departments and the South African Local Government Association (Salga), should ensure that proper plans are continuously implemented to improve the quality of spending and performance in local government to achieve value for money; in light of the proposed allocation amounting to R523 billion, including R161.8 billion in conditional grants.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance and its provincial counterparts, should put proper mechanisms in place to ensure that the much-needed relief funding earmarked for disaster recovery promptly reaches the deserving beneficiaries/victims; and improve the expenditure for the proposed additional allocation of R2.8 billion to the Municipal Disaster Recovery Grant to fund the repair and reconstruction of municipal infrastructure damaged by the April 2022 floods.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance and its provincial counterparts should ensure that proper planning and monitoring is conducted to avoid wasteful and fruitless expenditure as well as corruption for the proposed R6.5 billion earmarked for the eThekwini Metropolitan Municipality; the City of Johannesburg Metropolitan Municipality; the Drakenstein Local Municipality; the Sol Plaatjie Local Municipality and the Nelson Mandela Bay Metropolitan Municipality, to fund municipal infrastructure projects approved through the sixth window of the Budget Facility for Infrastructure (BFI) over the MTEF.

The National Treasury supports the committee's recommendation.

The National Treasury and Cabinet should ensure that a concerted effort is exerted to address the financial challenges experienced by municipalities in financial distress. Furthermore, a portion of the higher than anticipated revenue generated should be utilised to alleviate financial pressures for these municipalities; with such an intervention being accompanied by stringent conditions to enforce accountability, and improved oversight.

The National Treasury has been working closely with the Department of Cooperative Governance to respond robustly to instance of dysfunction in municipal governance. The National Treasury considers that internal management and political dysfunction are the key causes of the financial challenges in municipalities. In this regard, working with provincial treasuries and the Department of Cooperative Governance, the National Treasury continues to build financial capacity in municipalities and support municipalities in financial distress. Over the next three years, the local government equitable share is allocated an additional R5.3 billion. This will assist in alleviating some financial pressures on municipalities. Cabinet approves the budget and decides how the higher-than-anticipated revenue is used.

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