2025 BUDGET REVIEW

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

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National Treasury
REPUBLIC OF SOUTH AFRICA

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2025 BUDGET REVIEW

REPORT OF THE MINISTER OF FINANCE TO PARLIAMENT

national treasury

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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 during the tabling of the budget explaining how the Division of Revenue Bill and the national budget give effect to recommendations made by Parliament or providing reasons for deviating from these recommendations. The recommendations to which this annexure responds are contained in:

- Budgetary review and recommendation reports (BRRRs) submitted by portfolio 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 recommendations of portfolio committees and those from finance committees, particularly where they relate to the National Treasury.

Several committees recommended allocating additional budget for certain programmes, sub-programmes or other budget items. Tax measures in the 2025 Budget will make it possible to accommodate some critical spending priorities while maintaining the fiscal stance. Nonetheless, there remains limited scope to fulfil multiple recommendations for additional budget given the constrained fiscal outlook. Reprioritisation of existing funds remains the primary tool for departments, public entities and other institutions to fund emerging priorities. Furthermore, all accounting officers must implement measures to minimise inefficiency and waste to improve value for money.

PORTFOLIO COMMITTEE ON EMPLOYMENT AND LABOUR

The committee should be regularly updated on engagements between the department and the National Treasury on preferential procurement status of the Supported Employment Enterprises (SEE).

Prior to the enactment of the Public Procurement Act (2024), the National Treasury advised the department to develop a policy on preferential procurement within government. This policy would require departments to procure goods and services from SEEs; however, development of this policy has yet to commence. Notwithstanding, the National Treasury is committed to supporting the department, as the custodian of the SEEs programme, to engage the Office of the Chief Procurement Officer on this matter and provide a comprehensive report to the committee.

Application should be made to the National Treasury (NT) for budget surpluses of other entities within the Employment and Labour portfolio that are not going to be utilised by those entities to be transferred to the Commission for Conciliation, Mediation and Arbitration (CCMA).

As noted in the 2024 Budget, public entities and constitutional institutions are required to annually submit surplus retention requests to the National Treasury in terms of section 53(3) of the Public Finance Management Act (1999) and National Treasury Instruction 12 of 2020/21. Cash surpluses of entities are evaluated as standalone applications and approval is granted based on the motivation provided, which details how the surplus arose and what it will be spent on, if approved. Should an entity only be granted a partial surplus retention or not be granted approval to retain the surplus, those funds revert to the National Revenue Fund. As such, surpluses of one entity cannot be transferred to another entity. In addition, some entities' founding legislations stipulate what any surplus should be used for.

PORTFOLIO COMMITTEE ON HIGHER EDUCATION

The department should provide additional funding to colleges to expand the offering of occupational programmes. The department needs to assist Technical and Vocational Education and Training colleges with additional funding to improve the uptake of occupational qualifications developed by the Quality Council for Trades and Occupations, which are in demand in the industry.

In the 2024 Budget, R15 billion was made available in the post-school education and training system to fund the occupational programmes at technical and vocational education and training colleges. This included funding from the technical and vocational education and training subsidies, the National Student Financial Aid Scheme, the National Skills Fund and sector education and training authorities through the skills development levy.

In light of the expanding mandate and scope of work of the Council on Higher Education, additional funding should be considered for the entity to implement its new fit-for-purpose organisational structure that matches the work that needs to be done; make progress in implementing its Digital Transformation Strategy and carry out the increased scope of work.

As noted in the 2024 Budget, the Council on Higher Education's baseline was increased by an additional allocation of R19 million in 2022/23 and R25 million in 2023/24 to address critical capacity needs and implement its mandate. In addition, the council retained a cash surplus of R4.4 million in 2023/24 to enhance its information and communication technology infrastructure and resources as part of the planned phased implementation of the new Quality Assurance Framework.

Additional funding over the MTEF period (2025/26 – 2027/28) should be considered to: enable the South African Qualifications Authority to fund automation and digitisation; verification of South

African qualifications and the National Qualifications Framework Chair (Research); and implement the phased-in approach of the automation Project Phoenix.

The South African Qualifications Authority was authorised to retain a cash surplus of R108.4 million in 2023/24 to address critical capacity challenges and to implement its mandate. These surplus funds are being used for rolling out the business process automation project, operational commitments as per the National Qualifications Framework Act (2008), the purchase of a new office building, contingent liabilities arising from pending legal cases and various research projects. Furthermore, the authority is receiving a transfer payment from the department totalling R292.3 million over the medium term.

PORTFOLIO COMMITTEE ON SPORT, ARTS AND CULTURE

The committee notes that the cost containment measures that are still in place for 2024/25, specifically in relation to cost of employment, stifle the department's efforts to reduce its vacancy rate. The committee further notes that the department has made a request for an adjustment budget for 2024/25 of R10 million, however, this is still not sufficient to address staffing deficiencies and will have implications for service delivery. The Minister of Finance should work with the department to implement the necessary budget adjustments to address staffing deficiencies.

The compensation of employees ceiling requires departments to evaluate their personnel budgets and only fill critical posts. In undertaking that exercise, the impact of the carry-through costs must also be taken into consideration. The National Treasury is willing to assist the department in implementing necessary budget adjustments to address staffing deficiencies. However, caution should be exercised to ensure that compensation of employees does not crowd out other service delivery priorities.

The committee has heard the appeals of several entities that require additional funding to address deficiencies in their operational budgets, including but not limited to the Mandela Bay Theatre Complex, the Amazwi Museum, the South African Library for the Blind, and the South African Heritage Resources Agency. The committee notes the Minister's response to the 2023 BRRR which indicates that additional funding to public entities will have to be done through reprioritising funds within departmental allocations.

The White Paper on Arts, Culture and Heritage advocates for the amalgamation of affected entities to enable the sharing of resources and administrative functions, saving costs and ensuring the sustainability of these entities. However, in a letter to the Minister of Finance dated 2 September 2024, the Minister of Sport, Arts and Culture announced the cancellation of the amalgamation of entities. Accordingly, the liquidity of some of the department's entities remains a concern. The department has been advised to work with all entities to eliminate the practice of budgeting for cash deficits in terms of section 53(3) of the Public Finance Management Act. Given fiscal constraints affecting all parts of the state, entities must remain within their allocated budgets.

PORTFOLIO COMMITTEE ON SOCIAL DEVELOPMENT

The committee raised a concern that budget cuts imposed by National Treasury affected service delivery to the poor. There should be a mechanism where political representatives of the departments can make representations to National Treasury on behalf of their departments.

The budget is adopted by Cabinet and endorsed for tabling in the National Assembly every year. Cabinet is chaired by the President and composed solely of all ministers of the state. The budget is the decision of the political representatives in the executive and is passed into law by political representatives in the legislature. Furthermore, recommendations from the Technical Committee on the Budget (composed of officials) are tabled at the Ministers' Committee on the Budget before they are taken to Cabinet for approval, while intergovernmental allocations are discussed at the Budget Council and the Budget Forum, each of which is composed of political leadership from the provincial and local government spheres. Finally, the chairs of the Finance and Appropriations committees from both houses of Parliament have standing invitations to Budget Council and Budget Forum meetings.

Overall, therefore, the annual budget process is highly consultative, and departments are given the opportunity to make representations and submissions to inform the discussions in the Technical Committee on the Budget.

Against the above backdrop, the committee is also advised that no new budget reductions are effected in the baselines of institutions in the 2025 Budget.

PORTFOLIO COMMITTEE ON WOMEN, YOUTH AND PERSONS WITH DISABILITIES

The committee requests National Treasury to consider the requests for rollover of funds for the department and the Commission for Gender Equality.

In the 2024 Adjustment Budget, the National Treasury approved a rollover request of R13 million from the Department of Women, Youth, and Persons with Disabilities for the payment of contractual obligations and commitments. Of this amount, R5 million was allocated to the Commission for Gender Equality as an increase to its transfer payment in 2024/25. Furthermore, the National Treasury approved the Commission for Gender Equality's retention of a cash surplus of R7.7 million from the previous year for use in 2024/25.

The committee requests that National Treasury considers the continuation of the Presidential Youth Employment Initiative in the 7th Administration.

In 2025/26, R549.8 million has been allocated to the National Youth Development Agency under the presidential employment initiative. Moreover, the 2024 Budget announced funding of R7.4 billion for the presidential employment initiative.

The committee requests National Treasury to reassess the funding allocation to the department to optimally implement its respective mandates.

The Department of Women, Youth and Persons with Disabilities has been provided with additional funding of R20 million in 2025/26, R20.9 million in 2026/27 and R21.8 million in 2027/28.

PORTFOLIO COMMITTEES ON AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

The Minister of Finance must consider the impact of budget reductions for land reform (redistribution, tenure reform and restitution) in view of the constitutional imperative and the potential risks associated with slow pace of delivery of land, especially the settlement of all the pre-1994 land claims as well as labour tenants' applications:

- *In addition, note that the recent Communal Property Associations Amendment Act (2018) commits the State to setting up institutions and capacity to administer the Communal Property Associations Act effectively.*
- *Internal reprioritisation of funds has reached a point where it could potentially have negative effect on key programmes of the Department of Land Reform and Rural Development.*

The National Treasury acknowledges the committee's concerns about the slow progress in settling land claims and processing labour tenants' applications, largely attributable to court rulings that caused unforeseen funding gaps. To address these issues, the department should expedite the review of the rural development financing model, focusing solely on coordinating rural infrastructure development rather than duplicating projects such as building roads and schools. This revision could free up departmental resources that can be reallocated to accelerate land delivery without negatively impacting rural development programmes. Additionally, the Agricultural Land Holding Account should enhance its budget utilisation processes to minimise unspent funds being returned to the National Revenue Fund or seek to retain any surpluses.

The Minister of Finance, in consultation with the Minister and the Department of Land Reform and Rural Development, the Chief Land Claims Commissioner, and the Office of the Valuer-General, consider reviewing the land reform and rural development financing model to increase the allocation for restitution:

- *To ensure that all the pre-1998 land claims lodged (old order land claims) in terms of the Restitution of Land Rights Act (1994) are settled over the next five years.*
- *To support the implementation of Project Kuyasa, focusing on the autonomy of the Commission on Restitution of Land Rights as recommended by the South African Human Rights Commission, the Auditor-General of South Africa, the High-Level Panel on Assessment of Key Legislation and Fundamental Change, and the Portfolio Committee.*

The National Treasury concurs with the committee's proposal and will work together with the Department of Land Reform and Rural Development to find an appropriate financing model. Due to the constrained fiscal environment, the National Treasury welcomes the review of the current financing model for land reform programmes, which is expected to free up resources that can be reallocated to pressing restitution programme priorities such as settling old order land claims. The Office of the Valuer-General should enhance its capacity by filling critical frontline positions, as the current staff shortages lead to costly dependence on private land valuers. Furthermore, it should work to minimise unspent funds being returned to the National Revenue Fund.

Given the land claims court order in the Mwelase and Others matter, confirmed by the Constitutional Court, compelling the State to settle all outstanding labour tenant applications lodged in terms of the Labour Tenants (Land Reform) Act (1996) over the next five years, allocate a ring-fenced budget for the department, under the supervision of the Special Master of Labour Tenants at the Land Claims Court, to facilitate settlement to, and post settlement support for, all labour tenants' applicants whose claims are valid.

The National Treasury notes the committee's recommendation. Government finances are currently operating with an unsustainable deficit that will exceed R374 billion by the end of March 2025. Reprioritisation is advised to fund spending pressures and emerging priorities.

In view of the Communal Property Associations Amendment Act No. 20 of 2018, assented to by the President on October 8, 2024, particularly Section 2B and 2C which establishes the Communal Property Associations Office and the appointment of a Registrar, and outside the usual internal reprioritization of the budget, allocate additional funding for the support of Communal Property Associations in line with the Act.

The National Treasury notes the committee's recommendation. Government finances are currently operating with an unsustainable deficit that will exceed R374 billion by the end of March 2025. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

Consider a budget allocation to the Onderstepoort Biological Products for the Good Manufacturing Practice Facility:

- *The Onderstepoort Biological Products is a National Key Point and the only manufacturer of certain animal vaccines in the country and the continent, which is on the verge of collapse due to aging infrastructure. The Onderstepoort Biological Products operates on very old infrastructure and equipment that has been in use for more than 30 years and has surpassed its 15 to 20-year lifespan.*
- *This has resulted in frequent equipment breakdowns, thus constraining the Onderstepoort Biological Products' ability to produce sufficient quantities of animal vaccines for diseases of economic importance as and when required.*

Onderstepoort Biological Products was allocated over R492 million in 2018/19 to upgrade equipment and build the vaccine manufacturing facility; however, progress has been slow. According to the report presented to the Onderstepoort Biological Products shareholders on 31 October 2024, R153.4 million remained unspent for the Good Manufacturing Practice project. The National Treasury also noted that the entity's sales revenue increased significantly from R170.1 million in 2021/22 to R232.3 million at the end of 2023/24, driven by the sale of vaccines in the export market.

Consider for approval the Agricultural Research Council's funding application from the Budget Facility for Infrastructure that was submitted in May 2024:

- *The required funding is for the construction of the Foot-and-Mouth Disease Vaccine Facility, whose delay has a negative impact on the local availability of the vaccine and the health of the national herd.*

- *The vaccine is currently sourced from Botswana, which is not only costly but poses a serious biosecurity risk to the country, compounded by concerns about the Botswana vaccine's longevity of immunity as it has not been tested under local conditions.*
- *Currently, the country is struggling with outbreaks of Foot-and-Mouth Disease, with serious implications for livelihoods and the economy as some export markets have placed bans on South African livestock products.*

The National Treasury is collaborating with the council and the department to enhance compliance and explore funding options, including reprioritising funds towards infrastructure projects. Despite an initial R500 million allocation over a decade ago, construction has progressed slowly. Recently, the council secured approval to retain an accumulated surplus of R13.6 million, raising the total allocation for the facility to R885.1 million. Efforts are ongoing to expedite the project's completion.

PORTFOLIO COMMITTEE ON TOURISM

The National Treasury should increase the ring-fenced budget to capitalise the Tourism Transformation Fund and Tourism Equity Fund.

Implementation of the revised R1.2 billion Tourism Equity Fund has faced delays, reflecting broader challenges in fully using allocated budgets. Both funds underscore the need for continued efforts to streamline processes and enhance their impact on economic transformation.

National Treasury should appropriate a ring-fenced budget to facilitate tourism development and growth in villages, townships and small towns.

The Department of Tourism is already implementing multi-year spatial planning and infrastructure projects that support rural and township economies, with an allocation of R924 million over the medium-term expenditure framework (MTEF) period. The spatial planning and infrastructure projects provide support for community-based tourism projects and community museums. They will continue to contribute to tourism development and ensure that tourism benefits accrue to communities, especially those around key attractions and sites in rural areas.

National Treasury should approve the filling of vacancies in the department to enable the tourism sector to create more jobs and continue to contribute immensely to the GDP of the country.

Authority to fill vacant posts vests with the Department of Public Service and Administration. The National Treasury provides input on the availability of funds to fill vacancies. The Department of Tourism is aligning its process to fill vacant posts with the requirements of the directive by the Minister of Public Service and Administration dated 2 April 2024 (Implementation of control measures aimed at assisting Executive Authorities in managing fiscal sustainability during the process of creating and filling vacant posts in departments).

PORTFOLIO COMMITTEE ON SCIENCE, TECHNOLOGY AND INNOVATION

The committee recommends that the National Treasury allocates the additional R2.4 billion needed to offset the existing shortfalls in bursary and grant support.

The National Treasury notes the committee's recommendation. Given the current constrained fiscal environment, there is limited scope for additional funding to departments and entities. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

The committee recommends that the National Treasury allocate R570 million that South African National Space Agency needs for its satellite build and launch capability. This includes R350 million for Earth Observation Satellite 1, R120 million for launch capability and R100 million for the development of Synthetic Aperture Radar technology.

The National Treasury notes the committee's recommendation. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities. Nevertheless, the South African National Space Agency is advised to consider private-sector partnerships or blended finance approaches for this project. The entity can obtain further advice from the Development Bank of Southern Africa or the Government Technical Advisory Centre.

The committee recommends that the National Treasury allocate the needed R35 million for the Innovation Fund and the R100 million for the Pre-seed Fund to the Technology Innovation Agency.

The National Treasury has conducted a spending review exploring the agency's role and efficiency in the commercialisation and development of intellectual property from publicly funded institutions. The review is under consideration by the Department of Science, Technology and Innovation. Concurrently, the agency is conducting its own internal institutional review, which will also be submitted to the department for consideration. Both processes must be concluded before additional funding requests for the agency can be considered.

PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS

As in previous years, it remains evident that there is limited progress in addressing the compensation of employees over-expenditure in the Department of Defence. The committee therefore reiterates the recommendation by the Portfolio Committee on Defence and Military Veterans of the 6th Parliament that a long-term, permanent solution is based on the development of a new Human Resources management strategy or adjustment of the current strategy to ensure long-term stability in the South African National Defence Force's personnel contingent by focusing specifically on force rejuvenation. It is recommended that this plan be developed in consultation with the National Treasury and that the plan be fully funded to achieve the desired outcomes. Of specific importance to this recommendation is that the strategy should create a permanent exit mechanism for older soldiers who will not advance in their military careers and that such an exit mechanism ensures a smooth transition to civilian life through, for example, vocational training, job placement, and/or monetary assistance. The strategy should be adapted for the unique socio-economic conditions in South Africa on the one hand and be fully aimed at creating long-term force rejuvenation and compensation of employees stability in the Department of Defence. The committee noted previous indications that the National Treasury is open to engaging with the Department of Defence on the matter and therefore requests feedback from National Treasury once engagements on the plan start.

The National Treasury has made similar recommendations to the department in the past without any tangible progress on the matter. The National Treasury is open to engaging with the Department of Defence on the matter and will participate accordingly should the department require the

National Treasury's involvement in drafting the human resources management strategy. The National Treasury will brief the committee accordingly once invited to do so.

Dependent on the development of an agreement on a long-term stabilisation and rejuvenation plan as noted above, the committee recommends that National Treasury considers the allocation of additional funds to the Department of Defence to fund the compensation of employees' shortfall while the rejuvenation plan is implemented.

Over the next two years, the Department of Defence will participate in the government-wide early retirement programme without penalisation of pension benefits. This is intended to achieve two key objectives. First, it aims to rejuvenate the force by creating opportunities for the recruitment and advancement of younger personnel, ensuring a more agile and capable defence force. Second, it seeks to generate savings within the compensation of employees' budget, which can be redirected to alleviate ongoing financial pressures in this area. Government finances are currently operating with an unsustainable deficit that will exceed R374 billion at the end of March 2025. Moreover, the National Treasury will continue advising departments and Cabinet to consider difficult trade-offs to fund critical priorities.

Adverse findings by the Auditor-General of South Africa related to the Department of Defence's procurement systems and its logistics management systems are often related to outdated Information and Communication Technology systems and infrastructure in the Department of Defence. Previously, Parliament recommended that the National Treasury provide the Department of Defence with an additional ring-fenced allocation for the upgrading of Information and Communication Technology systems in the procurement and logistics management environments. During the 2024 Medium Term Expenditure Framework budget process, the National Treasury advised departments and entities to reprioritize funds towards emerging priorities. The committee recommends that a ring-fenced allocation in 2025/26 be reconsidered to boost the Information and Communication Technology systems and infrastructure in the Department of Defence with the aim to limit irregular expenditure.

The National Treasury notes the committee's recommendation. Government finances are currently operating with an unsustainable deficit that will exceed R374 billion by the end of March 2025. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

The National Treasury should indicate to the committee its view on whether the utilisation of the South African National Defence Force (SANDF) to guard selected Critical Infrastructure can serve as a cost-saving measure and the scope for implementation thereof.

The cost-effectiveness of deploying the SANDF to safeguard critical infrastructure should be evaluated based on empirical evidence, as insourcing has, in some cases, proven to be expensive. For example, past internal deployments of the SANDF have incurred high costs due to the comprehensive mobilisation of all capabilities, highlighting the need for a more targeted and efficient approach. A previous spending review by the Government Technical Advisory Centre revealed that insourcing security services is generally more expensive due to higher public-sector salary structures relative to private-sector alternatives.

PORTFOLIO COMMITTEE ON JUSTICE AND CONSTITUTIONAL DEVELOPMENT

Additional funding should be allocated to Legal Aid South Africa to address the carry through costs of the 2023/24 wage agreement, lack of relief capacity, and to increase court coverage. Legal Aid South Africa must also be allocated an amount of R73.3 million to fund additional capacity required flowing from the promulgation of the Land Court Act, and the shortfall in respect of fees due to legal practitioners in land matters for pending instructions held on 1 January 2022 must be addressed.

The 2024 Budget shifted R156 million from the Department of Agriculture, Land Reform and Rural Development to Legal Aid South Africa to settle fees owed to legal practitioners handling land-related matters. At the same time, government finances are currently operating with a deficit that will exceed R374 billion at the end of March 2025. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

The Information Regulator must be allocated funds to meet the compliance and capacitation costs of its listing as a Schedule 3A National Public Entity in terms of the Public Finance Management Act (1999); for the continued capacitation of its structure; and to expand its footprint.

The costing and identification of funds should take place before an entity is established, rather than afterwards. Against this backdrop, the National Treasury reiterates that government finances are currently operating with a deficit that will exceed R374 billion by the end of March 2025. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

Concerning the South African Human Rights Commission and Public Protector South Africa, the committee does not support any budget cuts to their allocations. The committee also supports the Public Protector South Africa's funding proposals, especially for security and additional capacity.

The 2025 Budget includes additional allocations totalling R23 million and R73 million over the medium term for the South African Human Rights Commission and the Public Protector South Africa respectively to address capacity constraints. No budget reductions are effected in the baselines of institutions in the 2025 Budget.

PORTFOLIO COMMITTEES ON MINERAL AND PETROLEUM RESOURCES, ELECTRICITY AND ENERGY

Assist the Council for Geoscience to secure more funding from the National Treasury as well as from collaborative activities and partnerships so that the entity can contribute to South Africa's Economic Reconstruction and Recovery Plan by securing a minimum of 5 per cent of the global exploration expenditure through the application of geoscience information and knowledge.

An additional R80 million in 2024/25 and R120 million in 2025/26 was allocated in the 2024 Budget to the Department of Mineral Resources and Energy for the establishment of an Exploration Fund to benefit junior miners. The Council for Geoscience, in collaboration with the department and the Industrial Development Corporation, is managing this fund. Beyond this, it should be noted that government finances are currently operating with an unsustainable deficit that will exceed R374 billion by the end of March 2025. Reprioritisation remains the primary mechanism to fund spending pressures and emerging priorities.

Ensure that, together with the Minister of Finance, the funding models of the department's entities are addressed to ensure that they can fulfil their mandates.

The National Treasury notes the committee's recommendation. The National Treasury is available to engage with the department and affected entities on exploring possible funding models.

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 South Africa, to obtain a definitive interpretation or definition of supply chain management (SCM) terminology and issues raised with Broad-Based Black Economic Empowerment (B-BBEE) compliance requirements to prevent future disputes during the audit process linked to these terms.

Accounting officers and executive authorities are responsible for managing supply chain processes in line with applicable legal prescripts and policies. As noted in the 2024 Budget, the National Treasury will continue to liaise with the Department of Transport to provide guidance on interpreting and applying specific SCM terminology. B-BBEE legislation falls within the purview of the Department of Trade, Industry and Competition. The Department of Transport is thus advised to refer all queries relating to B-BBEE compliance to the Department of Trade, Industry and Competition for guidance.

The Minister of Finance through the National Treasury should assist the Department of Transport and its entities to receive final decisions on all alternative revenue source proposals submitted to National Treasury from the transport portfolio and submit a progress report to the committee by the end of January 2024.

As noted in the 2024 Budget, the National Treasury has not received any alternative revenue source proposals from the Department of Transport and its entities for consideration since 2023/24. The National Treasury considers proposals by departments and entities on a case-by-case basis for activities that are consistent with their mandates and where approval from the Minister of Finance is required.

The Minister of Finance through the National Treasury should submit a progress report to the committee by the end of January 2024 on the progress made with the Gauteng government, South African National Roads Agency Limited and National Treasury to finalise the funding issues linked to the Gauteng Freeway Improvement Project e-tolling matter.

A memorandum of agreement has been signed between the national government and the Gauteng provincial government detailing contributions to be made towards the Gauteng Freeway Improvement Project debt and maintenance backlog. This has made it possible for requisite allocations to be tabled in Parliament. This committee's recommendation aligns with that of the Standing Committee on Appropriations, which also requested a briefing from the National Treasury and the Department of Transport. In light of these recommendations, the National Treasury proposes a joint briefing for both committees and will await the official invitation.

PORTFOLIO COMMITTEE ON WATER AND SANITATION

The committee recommends that the Minister of Finance should not reduce the budget for the Department of Water and Sanitation over the medium term considering the state of water in the country and its importance in relation to other sectors such as health, energy, human settlements, agriculture, among others – these sectors rely on water to function optimally.

No budget reductions are effected in the baselines of institutions in the 2025 Budget.

The committee recommends that the Department of Water and Sanitation, National Treasury, South African Local Government Association and the Department of Cooperative Government and Traditional Affairs should develop a water debt management plan that should consider top slicing of equitable share, Municipal Infrastructure Grant, among other sources to address municipal water debt.

The National Treasury is collaborating with the Department of Water and Sanitation and the Department of Cooperative Governance and Traditional Affairs to identify pragmatic and legislatively feasible solutions to get municipalities to prioritise debt repayments to water boards. The National Treasury plans to invoke section 216 of the Constitution for five defaulting municipalities. This entails withholding the transfer of funds in the upcoming local government equitable share while negotiating a feasible repayment agreement with the affected water boards.

The committee recommended that the department, together with the National Treasury should develop a debt write off plan for municipalities that owe water boards in line with the debt eradication framework currently used for municipal electricity debts to ESKOM.

The National Treasury and the Department of Water and Sanitation are engaging on a mechanism to facilitate debt recovery, which will allow water boards and debtor municipalities to renegotiate repayment agreements. This mechanism involves writing off a portion of the municipal debt following the payment of the current account to water boards, and in turn water board arrears to the Department of Water and Sanitation will also be written off. However, the mechanism does not include the transfer of fiscal funding to water boards, as was the case in the Eskom arrangement.

STANDING COMMITTEE ON FINANCE

The committee recommends that National Treasury increase South African Revenue Service's (SARS) baseline funding by R17–R20 billion over the Medium-Term Expenditure Framework. This adjustment is essential to address the operational gaps created by years of limited growth in grant allocations, ensuring South African Revenue Service can adequately meet its expanded mandate under current inflationary pressures. To support short-term revenue recovery initiatives, the committee recommends an annual allocation of approximately R1 billion. This targeted funding would improve South African Revenue Service's capacity to enhance compliance measures and achieve sustainable revenue growth, contributing to national fiscal stability.

The National Treasury recognises the importance of the work SARS does in collecting taxes and duties, as well as its positive impact on the fiscal framework. SARS has received additional allocations in previous budgets mainly for capital projects, capacity-building initiatives, skills requirements and revenue-raising capabilities such as data analytics. During the 2023 Adjustment Budget, SARS received an in-year additional allocation of R1 billion to enhance its capacity and capability in tax compliance and revenue collection. In the 2024 Budget, an additional R1 billion was allocated each year for 2024/25 and 2025/26 for this purpose. Furthermore, the 2024 MTBPS allocated additional funding of R500 million in 2025/26, R1.5 billion in 2026/27 and R1.5 billion in 2027/28 to support capital projects and strengthen the revenue-raising capabilities of SARS. The National Treasury will continue to engage SARS on its budget requirements for its priority projects and make the necessary adjustments based on affordability and the capacity of SARS to fully roll out the implementation of projects.

For modernisation, the committee supports the allocation of an additional R3 billion over the Medium-Term Expenditure Framework. This investment should facilitate digital upgrades, automation, and improvements in taxpayer services and compliance efforts. The committee further recommends that a portion of this funding be used to extend SARS' presence in rural areas through mobile offices or other accessible platforms, ensuring individuals in underserved communities have equitable access to tax services, enhancing broader tax compliance and inclusivity.

The National Treasury notes the committee's recommendation. The 2024 MTBPS allocated additional funding of R500 million in 2025/26, R1.5 billion in 2026/27 and R1.5 billion in 2027/28 to support capital projects and strengthen the revenue-raising capabilities of SARS. The National Treasury will continue to engage SARS on its budget requirements for its priority projects and make the necessary adjustments based on affordability and the capacity of SARS to fully roll out the implementation of projects.

The committee recommends an allocation of R1.5 billion to support the hiring of 2 338 additional resources. Strengthening SARS' human resources is vital for improving service delivery, enforcing compliance, and effectively utilising data analytics in tax administration.

In the 2023 Adjustment Budget, SARS received an in-year additional allocation of R1 billion to enhance its capacity and capability in tax compliance and revenue collection. In the 2024 Budget, an additional R1 billion was allocated each year for 2024/25 and 2025/26 for this purpose. Furthermore, the 2024 MTBPS allocated additional funding of R500 million in 2025/26, R1.5 billion in 2026/27 and R1.5 billion in 2027/28 to support capital projects and strengthen the revenue-raising capabilities of SARS.

Given the dynamic nature of the tax and customs environment, the committee recommends periodic reviews of South African Revenue Service's funding requirements. This approach will allow South African Revenue Service's budget to adapt responsively to technological advancements and evolving priorities, helping maintain the organisation's global competitiveness.

The National Treasury notes the committee's recommendation. The annual budget process, through baseline analyses, considers competing priorities before allocation decisions are made. Nonetheless, the constrained fiscal environment in recent years has limited the scope for additional funding.

RECOMMENDATIONS OF THE STANDING AND SELECT COMMITTEES ON FINANCE ON THE 2024 REVISED AND PROPOSED FISCAL FRAMEWORK

The Committee urges National Treasury and relevant departments to investigate and address the root causes of underspending, including potential administrative bottlenecks, capacity gaps, and *procedural inefficiencies. Strengthening these areas would improve budget execution, enhance service delivery, and ensure that government resources are utilized efficiently to meet the needs of the public.*

The National Treasury notes this recommendation. The National Treasury has well-established in-year expenditure monitoring through monthly and quarterly reports as part of the early warning system to detect root causes of underspending and overspending, among other things. Once deviations are noted, these are communicated with relevant departments and entities. These reports also inform in-year budget adjustment proposals.

The Committee emphasises the importance of balancing fiscal adjustments to ensure that essential services are not compromised. While the R10.4 billion net increase reflects a responsive approach to budget management, the reliance on contingency funds and projected underspending indicates underlying challenges in budget predictability and control. The Committee encourages NT to further streamline expenditure allocations and strengthen contingency planning, especially considering South Africa's pressing socio-economic needs and fiscal limitations.

The National Treasury notes this recommendation.

Revenue for 2024/25 is revised at R2.021 trillion, or 26.9% of GDP, with modest growth expected over the medium term, reaching R2.471 trillion by 2027/28 and stabilizing around 27% of GDP. The Committee notes the challenges in expanding the tax base and enhancing revenue due to the current economic environment. To support fiscal sustainability, the Committee urges NT to continue to explore avenues for improving tax compliance and stimulating economic growth.

The National Treasury notes this recommendation. The additional allocations proposed for SARS are intended to improve tax compliance. At the same time, government is running a broad economic growth agenda, including through Operation Vulindlela.

The Committee acknowledges the projected narrowing of the budget deficit from -5.0% of GDP in 2024/25 to -3.2% by 2027/28, indicating a commitment to fiscal consolidation. However, the persistent structural deficit raises concerns about vulnerability to revenue shortfalls and economic downturns, especially given the optimistic economic outlook embedded in the projections. The Committee recommends NT adopt contingency measures to safeguard deficit targets, ensuring fiscal stability even if revenue shortfalls or unforeseen expenditures arise.

The National Treasury notes this recommendation.

Gross loan debt is expected at R5.623 trillion for 2024/25, reaching R6.818 trillion by 2027/28, with the debt-to-GDP ratio stabilizing around 75%. The Committee remains concerned about high debt levels and debt-service costs, which limit funds for essential services. Strengthening debt management and exploring ways to reduce borrowing costs are recommended to mitigate fiscal risks. In particular, the Committee stresses the need for NT to diversify funding sources and enhance fiscal discipline to ensure long-term debt sustainability.

The National Treasury notes this recommendation. Committees of Parliament are urged to peruse the debt management reports publicly released by the National Treasury, as well as the debt management updates in Chapter 7 of the annual *Budget Review*. These publications outline how government has diversified funding sources and the policy benchmarks used to ensure that risks are kept to a manageable level.

The tax gap remains a challenge, with an estimated gross gap of R1.061 trillion, 42% of total tax liability, and a net gap of R800 billion. To bridge this gap, the Committee recommends further resource allocation to SARS, including enhancing digital capacity and retaining critical skills.

The National Treasury notes this recommendation. As noted earlier, SARS has received additional allocations in recent budgets. The 2024 MTBPS allocated additional funding of R500 million in 2025/26, R1.5 billion in 2026/27 and R1.5 billion in 2027/28 to support capital projects and strengthen the revenue-raising capabilities of SARS.

Budget constraints have led to reductions in SARS staffing, particularly affecting customs and excise. Given the rising demands of cross-border trade and non-compliance challenges, the Committee stresses the need for increased SARS funding to support modernisation and bolster tax compliance.

As noted earlier, SARS has received additional allocations in recent budgets. The 2024 MTBPS allocated additional funding of R500 million in 2025/26, R1.5 billion in 2026/27 and R1.5 billion in 2027/28 to support capital projects and strengthen the revenue-raising capabilities of SARS.

To address revenue shortfalls projected at R22.3 billion for 2024/25, the Committee recommends exploring progressive tax options, including taxes on luxury items and wealth taxes. Stakeholders suggest this approach could reduce fiscal strain without overburdening low-income households.

SARS is collecting and analysing wealth-related data through its High Net Worth Individuals Unit; however, no final decision has yet been made on the proposal.

The Committee recognises that high tax rates can impede economic growth and job creation. In light of this, it recommends that the government, as part of its commitment to a pro-growth agenda, also explores options to reduce certain taxes strategically. Lowering tax rates in key areas could stimulate savings, attract investment, enhance international competitiveness, and support broader economic growth and employment creation. Such an approach should be balanced to ensure that fiscal sustainability remains intact while fostering an environment conducive to economic expansion.

The National Treasury notes this recommendation.

Fiscal consolidation has constrained aggregate demand. The Committee suggests that targeted expenditure adjustments in high-impact sectors could support recovery, balancing austerity with economic stimulus.

The National Treasury notes this recommendation.

The Committee notes the progress of OV reforms, particularly in the energy and logistics sectors. While recognizing the potential of these reforms to drive economic growth, the Committee advises that greater innovation and clearer timelines are essential to ensure tangible improvements in critical services, such as water, sanitation, and infrastructure. Structural reforms in these sectors are vital for fostering a growth-friendly environment, enhancing job creation, and boosting revenue generation, thereby strengthening the fiscal framework. However, the Committee also acknowledges concerns raised by stakeholders regarding OV's inclination to shift resources from the state to the private sector. This approach, while aimed at efficiency, may face opposition due to its *impact on public service delivery and the state's role in essential services. The Committee recommends that these concerns be carefully weighed to strike a balance that ensures effective reforms while maintaining the state's accountability to citizens.*

The National Treasury agrees that a balance needs to be struck between private-sector efficiency and state accountability, and that it is important to find strategies to address challenges in water and sanitation, and implement infrastructure priorities.

The Committee acknowledges the planned infrastructure spending growth of 10.6% annually, reaching R160.6 billion by 2027/28, which aligns with goals under Operation Vulindlela. This investment is critical for economic growth and service delivery. PPPs mobilize private resources for infrastructure but carry risks of long-term costs and governance challenges. Stakeholders caution against over-reliance on PPPs, as they can prioritize profits over public welfare. The Committee recommends a balanced approach that incorporates government-led projects alongside PPPs.

The National Treasury notes this recommendation.

To enhance PPP outcomes, the Committee recommends standardized oversight, periodic reviews, and transparent governance to ensure efficiency and minimize financial strain on the state.

The National Treasury notes this recommendation.

Prioritizing government-led projects in health, education, law enforcement and social welfare will help maximize public benefits. Clear timelines, budgeted milestones, and performance targets are recommended for infrastructure projects to ensure socio-economic benefits.

The National Treasury notes this recommendation.

Contingent liabilities from IPP guarantees pose fiscal risks. The Committee notes that long-term contracts with IPPs represent potential liabilities that could impact fiscal stability. It recommends NT provide a comprehensive report on these liabilities and adopt monitoring frameworks to manage fiscal risks effectively.

The structure of the programme and its contracts significantly reduces the fiscal risk by mitigating the likelihood of contingent liabilities materialising. However, the extent to which these liabilities impact the fiscus remains contingent on government decisions. The monitoring process involves active engagement during the opening of bid windows to assess potential risks and incorporate appropriate mitigation measures. The Independent Power Producer (IPP) Office submits quarterly reports on the programme to the National Treasury. These reports undergo thorough review and are subsequently presented to the Financial and Legislative Committee and the Minister of Finance, and are incorporated into a comprehensive quarterly report submitted to Parliament. This regular reporting to the National Treasury and Parliament strengthens accountability and transparency, safeguarding economic stability while advancing the energy transition.

The Committee notes reports indicating that some public servants may be compensated above market levels, while others may be under remunerated. To address these discrepancies, the Committee recommends that public sector remuneration levels be systematically benchmarked against market standards to ensure government pay scales align with market rates, thereby promoting equitable, competitive, and sustainable remuneration practices across the public sector.

The National Treasury acknowledges this recommendation and will forward it to the Department of Public Service and Administration.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2024 MTBPS

The National Treasury should ensure that the proposed additional funding allocations made in the 2024 MTBPS are utilised in a manner that is cost effective, efficient, attaining value for money while respecting the Laws and Regulations governing South Africa's public finances. The full application of the PFMA and Treasury regulations by all Accounting Officers and Accounting Authorities when utilising public funds is mandatory and the Minister of Finance must ensure that there are consequences for the violations of the PFMA, Treasury Regulations and all Treasury issued Practice Notes governing the utilisation of public funds.

The National Treasury notes this recommendation. The roles and responsibilities of accounting officers in budgetary control and consequence management are clearly defined in section 39 and section 81 of the Public Finance Management Act. However, the National Treasury will continue to monitor expenditure and report quarterly to Parliament.

National Treasury should provide a comprehensive report on overall government plans to improve spending efficiencies, reduce fruitless and wasteful expenditures and irregular expenditure as reflected in the reports of the Auditor General of South Africa. This should also be understood within the context of the consistent failure of government institutions to pay invoices with the PFMA 30 days requirements and its impact on the overall financial viability of business, small, medium and macro enterprises.

The National Treasury is committed to improving spending efficiencies and addressing fruitless, wasteful and irregular expenditures highlighted in the Auditor-General's reports. The National Treasury continues to strengthen expenditure monitoring, enforce compliance with the Public Finance Management Act and provide targeted support to departments and entities to enhance financial management. Furthermore, the National Treasury is intensifying efforts to ensure adherence to the 30-day payment requirement, recognising its critical impact on the financial viability of businesses, particularly small, medium and micro enterprises.

The National Treasury should ensure that government procurement structural reforms are centred around Operation Vulindlela and briefs the Committee on Operation Vulindlela and all the government proposed structural reforms.

Operation Vulindlela, a joint initiative of the Presidency and the National Treasury, aims to accelerate structural reforms in key network industries such as electricity, water, transport and digital communications. Although procurement modernisation supports these reforms, it falls outside the initiative's scope. Key procurement reforms include the recent Public Procurement Act (2024), for which regulations are being developed. Other initiatives include improving information and communication technology data transparency and digitalisation.

Since the budgeted bandwidth within the MTBPS for wage increases for public sector employees was at 4.7 per cent, the Minister of Finance should ensure that proposed wage increases as indicated in the MTBPS should therefore be more realistic going forward.

The National Treasury acknowledges this recommendation. The final wage agreement is for a wage increase of 5.5 per cent in 2025/26 and consumer price index-related increases over the subsequent two years. This agreement will support greater certainty in budget planning. Nevertheless, the wage adjustments still allow government to meet its overall fiscal targets.

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

That the Minister of Finance ensures that National Treasury provide a comprehensive report on the review/assessment of all the conditional grants allocation that necessitated the merger, discontinuation and even changes of conditional grants from direct to indirect and vice-versa. The Committee want to understand the rationales of these decisions and its implications on service delivery.

The National Treasury will provide the requested information.

That the Minister of Finance ensures that National Treasury provide a comprehensive report on terms of reference and progress made in reviewing the local government fiscal framework and due to the urgency of this matter, provide quarterly progress reports to Parliament until this process is finalised.

Terms of reference and governance documents have been finalised for the local government fiscal framework review. Updates to the terms of reference, discussed on 14 October 2024, include a new sub-theme on the vertical division of revenue and performance evaluation measures for non-compliance. The National Treasury remains committed to commencing the review in the first quarter of 2025/26.

The Minister of Finance should ensure that National Treasury brief Parliament on the Eskom Municipal Debt Relief Programme. Parliament wants to satisfy itself on the practicality of these conditions and thereby ensures that municipal balance sheets are not negatively impacted by conditions that are impossible to implement. The Committee's interest is on the provision of service delivery to South Africans whilst acknowledging the debt obligations of municipalities to Eskom and the Eskom debt relief programme that Parliament has approved.

The Eskom Municipal Debt Relief Programme addresses unsustainable municipal debt while promoting sound financial management. Key conditions include meeting a revenue collection rate of at least 85 per cent, implementing cost-reflective tariffs and restricting free basic services to indigent households. Non-compliance may result in programme termination, repayment of relief debt and arrears and exclusion from medium-term revenue and expenditure framework grants. The National Treasury provides monthly support, monitors compliance, encourages smart prepaid meter adoption and considers mandatory interventions where needed. The National Treasury remains committed to balancing debt obligations with service delivery and will update Parliament accordingly.

That both the Minister of Finance and the Minister of Basic Education ensure that National Treasury provide, and the Department of Basic Education provide a comprehensive report to Parliament on both the financial implications and the overall government strategy in funding and fully implementing the BELA Act.

The Department of Basic Education, as the department bringing the Basic Education Laws Amendment Act (2024) to Parliament, is required to provide the costing and financial implications of the legislation as per section 35 of the Public Finance Management Act. The department presented this information to the Portfolio Committee on Education in 2023 and 2024. The Department of Basic Education is compiling the regulations mapping the implementation of the act by provinces. Funding the implementation of the act will form part of the normal budget process at national and provincial level.

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

The National Treasury should provide a comprehensive report to the Committee and Parliament on the reasons to allocate R30.847 million to the Department of Higher Education and R30.762 million to the Department of Mineral Resources as unforeseeable and unavoidable expenditure for the funding of the new ministry as part of the national macro-organisation of government, within a context of well-known general elections' calendar. The Committee is of the view that the proposed expenditure allocations related to compensation of employees, goods and services, and capital assets in Higher Education, Forestry, Fisheries and the Environment, and Mineral Resources and Energy; and the Minister of Electricity and Energy are inconsistent with the provisions of unforeseen and unavoidable expenditures as classified in section 30 of the PFMA. This report must further clarify all the consideration and alternative budgeting processes that were considered to conclude on all the unforeseen and unavoidable expenditures as proposed in the Bill.

The allocations of R30.9 million to the Department of Higher Education and R30.8 million to the Department of Mineral Resources as well as allocations to other departments outlined above were necessitated by the national macro-organisation of government following the President's announcement of additional deputy ministers and new ministries. While the general elections calendar was known, the specific structural changes and the timing of their implementation were not foreseeable during the preparation of the budget. As such, these allocations meet the criteria for unforeseeable and unavoidable expenditure under section 30 of the Public Finance Management Act, as they address the urgent operational requirements of the newly established ministries and additional deputy ministers to ensure their effective functionality. Alternative budgeting processes were considered; however, reallocation within the 2024 MTEF budget framework was insufficient to meet the immediate needs that arose from the organisational change. A detailed report providing further clarity and considerations will be submitted to the Committee and Parliament as requested.

The National Treasury should provide the Committee and Parliament with a comprehensive report on the utilisation of R2.1 billion for the South African National Defence Force (SANDF) through section 16 of the PFMA. Given that the announcement of this deployment was made in December 2023, this report must further clarify as to why this proposed allocation of R2.1 billion was appropriated under Section 16 of the PFMA, rather than being included in the 2024 Budget Review. The Committee is of the view that the utilisation of section 16 of the PFMA was not warranted in this instance.

The National Treasury can provide a report in this regard. Funding for the Southern African Development Community Mission in the Democratic Republic of the Congo (DRC) could not be accommodated in the 2024 Budget, as the SANDF deployment occurred in late December 2023, after the 2024 MTEF budget process had been finalised. In compliance with section 16(4)(a) of the act, the Minister of Finance submitted a report to Parliament and the Auditor-General within 14 days of authorising the R2.1 billion expenditure under section 16 of the act in July 2024. This report, addressed to the Speaker of the National Assembly and the Chairperson of the National Council of Provinces, outlined the justification for the expenditure, including the escalation of conflict in Eastern DRC and the associated loss of life and injuries to SANDF personnel.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE SPECIAL APPROPRIATION BILL

The Minister of Finance and the Minister of Transport should ensure that National Treasury and the Department of Transport brief the Committee and report to Parliament on the Memorandum of Agreement entered by the National Treasury, the Department of Transport and the Gauteng provincial government on the decisions and conditions of government taking over the GFIP debt portfolio. This MOA has given rise to this Special Appropriation Bill that must be processed by Parliament in line with the Money Bills Act. Parliament appreciates the sensitivity of some of these agreements. However, Parliament still has a constitutional responsibility to hold the executive accountable on any decisions taken regarding the utilisation of public funds. Furthermore, Parliament, through both houses, has an accounting responsibility to the citizens in any decisions taken by Parliament through the recommendations of its committees regarding the passage of Money Bills. Parliament must be briefed on the MOA on its entirety, to exercise its oversight role over the implementation of this Bill while scrutinising the rationality of the decision taken by government.

This committee's recommendation aligns with that of the Portfolio Committee on Transport, which also requested a detailed report from the National Treasury. In light of these recommendations, the National Treasury proposes a joint briefing for both committees and will await the official invitation.

The Minister of Finance ensures that National Treasury briefs the Committee on all the avenues explored by government in engaging with international partners to mobilise the resources needed to fund international court cases. This should be understood and reported within the overall context of government's fiscal consolidation policy and all the other myriads of issues affecting ordinary and poor South Africans, the high levels of poverty, high levels of unemployment and high levels of inequality.

The in-year allocations to the Presidency, the Department of International Relations and Cooperation, and the Department of Justice and Constitutional Development through the Special Appropriation Act (2024) were made to ensure that South Africa adequately fulfils its diplomatic obligations in pursuing its case at the International Court of Justice. The National Treasury will brief the committee on efforts to engage international partners and explore co-funding mechanisms to minimise the fiscal impact of international legal proceedings.

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

The National Treasury and the Department of Cooperative Governance should develop clear and proper financial management systems and the necessary support to ensure that additional *allocations earmarked for rebuilding and rehabilitation of infrastructure damaged by floods across multiple provinces and municipalities are spent according to approved plans and for the intended purpose before the end of the current financial year without incurring wasteful and fruitless expenditure.*

The National Treasury has a well-established in-year expenditure monitoring system to ensure that funds allocated for rebuilding and rehabilitating infrastructure damaged by floods are spent effectively and in line with approved plans. In collaboration with the Department of Cooperative Governance, the National Treasury will continue to enhance financial management systems and provide targeted support to provinces and municipalities. The National Treasury remains committed to ensuring that the additional allocations are used efficiently and achieve their intended purpose.

The National Treasury and the departments of Transport and Human Settlements should develop clear plans to ensure that the adjusted allocations for the Emergency Housing Grant and the Provincial Roads Maintenance Grant are effectively and efficiently utilised in compliance with the conditional grant framework to achieve value for money and the necessary impact on the ground.

The National Treasury notes this recommendation. The development of the plans is the primary responsibility of the line function departments. Nonetheless, the National Treasury, in collaboration with the departments of Transport and Human Settlements, is committed to ensuring that the adjusted allocations for the *emergency housing grant* and the *provincial roads maintenance grant* are used effectively and efficiently. Furthermore, the National Treasury has a well-established in-year expenditure monitoring system to ensure compliance with the approved plans, value for money and measurable impact on the ground. The National Treasury, together with the relevant departments, will continue to support provinces and municipalities to address implementation challenges.

The National Treasury should ensure that government departments implement clear measures to improve self-financing mechanisms as part of addressing the continuous revenue shortfall in the budget, and these funds should be used responsibly and effectively to address the impact on service delivery programmes of the rising debt service cost and other spending pressures.

The National Treasury has an established framework on self-financing to support departments in enhancing their generation of own revenue. Departments are encouraged to implement clear and effective measures to maximise self-financing opportunities while ensuring that these funds are responsibly used to reduce the impact of other spending pressures on service delivery programmes. The National Treasury will continue to provide guidance and oversight to ensure that revenue-generating initiatives align with fiscal sustainability and service delivery objectives.

The Committee is of the view that, while the National Treasury together with the Department of Social Development are still investigating the most responsible and sustainable methods of financing the mooted universal Basic Income Grant, the current Social Relief of Distress (SRD) Grant should be extended beyond March 2025 as a temporary measure to cushion grant beneficiaries in the absence of jobs.

The National Treasury notes this recommendation. Funding for the *COVID-19 social relief of distress grant* will be extended for another year in 2025/26 while government continues to explore sustainable interventions to address poverty and unemployment. It should be noted that the grant is part of the social wage, which accounts for 61 per cent of consolidated non-interest spending over the medium term.

During the 2025 Budget, the Minister of Finance should outline clear measures and efforts which will be considered to ensure that the necessary consequence management is implemented against the departments which have continuously declared under-expenditure without meeting service delivery targets. The Committee is of the view that if not addressed, this has the potential to undermine government targets set out in the National Development Plan (NDP): Vision 2030.

The National Treasury acknowledges the committee's concerns. The National Treasury, through the annual budget process and in-year expenditure monitoring, makes allocation recommendations to Cabinet after considering the spending trends of departments. The roles and responsibilities of accounting officers in budgetary control and consequence management are clearly defined in section 39 and section 81 of the Public Finance Management Act.

The National Treasury and the Department of Cooperative Governance should ensure that specific consequence management measures are developed and put in place to address the impact of local government under-expenditure, with R2 billion being surrendered to the National Revenue Fund (NRF) this year. The Committee is of the view that such under-expenditure has the potential to undermine much-needed basic service delivery and impact negatively on communities and therefore clear and stricter measures should be taken to prevent this for the 2025/26 financial year.

The National Treasury shares the committee's concerns. The observed underspending partly stems from the recovery of grant funds misused by municipalities for non-compliant purposes, such as using infrastructure grants for operational expenses like salaries. These funds are clawed back through the equitable share mechanism, appearing as underspending in financial reports. While this recovery ensures compliance and proper use of public funds, it highlights the need for stronger preventative measures.

The Minister of Finance should ensure that all budget adjustments made due to unforeseen and unavoidable circumstances adequately comply with the relevant provisions of the Public Finance Management Act (PFMA), Treasury Regulations and other regulatory frameworks. The Minister should further ensure the approval of the requested rollovers in compliance with section 6.4 of the Treasury Regulations, together with section 30(2) of the PFMA.

The National Treasury notes this recommendation. Budget adjustments due to unforeseeable and unavoidable circumstances and rollover of funds are always carried out in line with the relevant legislations and regulations, including those cited by the committee.

All virements should be approved in terms of section 43 of the Public Finance Management Act (PFMA), together with section 6.3 of the Treasury Regulations, particularly those that are beyond 8 percent of the amount appropriated under the main division. However, the Committee does not support any movement of funds above 8 percent, which is because of poor planning and project management and unsatisfactory performance by some government departments, and the executive will have to apply the necessary remedial actions at their disposal to address such, if any.

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

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

The Minister of Finance should gazette the Division of Revenue Amendment Bill [B13 – 2024] once it is signed into law and ensure that the National Treasury continues to assist all provinces and municipalities where additional resources have been allocated to build proper financial management capacity and internal control measures to safeguard these allocations from corrupt elements and ensure that value for money is always achieved; failing which the necessary consequence management must be implemented.

The National Treasury notes this recommendation. All bills enacted by Parliament are gazetted.

The National Treasury, together with provincial treasuries, should continue to strengthen and improve their early warning monitoring and oversight measures for conditional grant spending through monthly expenditure reports. The National Treasury should further strengthen its regular and quarterly expenditure reports, which are presented to the Standing and Select Committees on Appropriations in Parliament. The Committee believes that these reports are critical in enabling these two Committees to conduct in-year monitoring over the executive.

The National Treasury agrees with the committee's recommendation and will work to improve the quality and scope of expenditure reports. In cases of conditional grant misuse, the National Treasury, in collaboration with relevant departments, will enforce the Division of Revenue Act by withholding or stopping transfers to non-compliant municipalities or provinces. These actions are essential to protect the integrity of the grant system and ensure funds are used as intended.

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 2024 MTBPS

During the 2025 Budget announcement, the Minister of Finance should outline clear medium term spending plans for government that will ensure a stable economic recovery trajectory to address government debt, major spending pressures which are mostly funded through reprioritisation or even shifting of funds over the Medium-Term Expenditure Framework (MTEF). Moreover, the National Treasury together with provincial treasuries should put proper financial management systems in place to ensure that the proposed medium term allocations are spent according to approved plans and are closely monitored to realise much-needed inclusive economic growth to reduce unemployment, poverty and inequality.

The National Treasury notes this recommendation. However, it should be noted that the tabling of the annual budget and money bills is accompanied by explanatory publications such as the *Budget Review* and the *Estimates of National Expenditure*. These documents outline the various aspects of the budget, including those cited by the committee.

Whilst the Committee acknowledges the impact of financial bailouts to state-owned entities (SOEs) and inadequate economic growth; the Minister of Finance should, in the next Budget, outline clear measures to address the fast-growing debt service cost, which is crowding out much-needed *spending on service delivery programmes aimed at addressing poverty, unemployment and inequality over the MTEF.*

The National Treasury notes this recommendation. Chapter 3 of the *Budget Review* provides an outline of government's strategy for fiscal sustainability. The 2025 Budget projects government debt will stabilise in 2025/26 and debt-service costs will peak as a percentage of revenue in 2024/25 and decline thereafter.

The National Treasury together with the Department of Planning, Monitoring and Evaluation, should expedite the finalisation of the Medium-Term Development Framework (MTDF) process, which underpins both budget formulation and sector strategic imperatives, and further ensure that the perpetual misalignment between the State of the Nation Address and the Budget is addressed. Parliament should monitor the progress in this regard.

The Department of Planning, Monitoring and Evaluation, as the department mandated for planning, has engaged extensively with stakeholders, including the National Treasury, in the development of the MTDF. The National Treasury has provided inputs into process and looks forward to collaborating with departments to align priorities in the budget process.

The National Treasury, together with the Department of Basic Education (DBE), should ensure that the proposed allocations for Basic Education are prioritised to address the challenges of infrastructure backlogs and overcrowding over the MTEF, especially given that there is a need to ensure that vacant teaching posts are filled and protected. Furthermore, the DBE should ensure that adequate libraries and other facilities needed for schooling are built, especially in rural schools.

The National Treasury notes the recommendation. Provincial education departments (along with provincial treasuries) are tasked with reviewing the budgets of provincial education departments to ensure that priority areas are funded. The Department of Basic Education will provide the infrastructure plans of the sector, which will indicate how they intend to resolve overcrowding.

Given the lack of inclusive economic activities, poverty levels, unemployment and inequality in the country, the duration of the Social Relief of Distress (SRD) Grant should be extended beyond 31 March 2025 as a temporary intervention while the National Treasury and the Department of Social Development continue to investigate the most sustainable and responsible revenue mechanism to fund the mooted permanent universal Basic Income Grant.

The National Treasury notes this recommendation. Funding for the SRD grant will be extended for another year in 2025/26 while government continues to explore sustainable interventions to deal with poverty and other interventions. It should be noted that the grant is part of the social wage, which accounts for 61 per cent of consolidated non-interest spending over the medium term.

The National Treasury should expedite the finalisation of reforming the Metro Trading Services Grant to incentivise reforms to trading services and unlock additional infrastructure financing.

Reforming the metro trading services is a key priority for the National Treasury to enhance the financial sustainability, efficiency and capacity of trading services such as water, electricity and sanitation. The proposed reforms aim to incentivise structural and institutional improvements, including governance, stronger financial management, improved revenue collection and reduced inefficiencies. These changes are essential to ensuring that metros can sustainably manage trading services and deliver high-quality services to their communities.

The National Treasury and the Department of Small Business Development should ensure that, within 90 days after the adoption of this Report by the House, a clear plan to support small businesses is developed and implemented to stimulate economic growth and address rising youth unemployment.

The responsibility to develop the plan to support small businesses rests with the Department of Small Business Development. An additional allocation of R313.7 million has been provided to the department over the 2025 MTEF period to provide support to small businesses.

The Committee reiterates its previous recommendation that the National Treasury, together with the Department of Cooperative Governance and the South African Local Government Association (SALGA), should expedite the review of both the provincial and local government equitable share formulas to address the 17 percent funding gap in local government. Moreover, the Committee believes that a proper review of local government transfers is necessary, especially of the vertical division of revenue; considering the increasing number of dysfunctional and financially distressed municipalities, the factors of geography and rurality and the nature of localities; to ensure proper equitable sharing of nationally raised revenue across all spheres of government.

A comprehensive review of the local government fiscal framework is under way to address challenges such as the growing number of dysfunctional and financially distressed municipalities. This review considers factors like geography, rurality and local characteristics to ensure equitable revenue sharing across government spheres. Regarding SALGA's identified 17 per cent funding gap, the National Treasury has flagged data and methodological concerns, which are being addressed as part of the review to ensure reliable calculations. For provinces, reforms to the provincial equitable share formula for the education component have been finalised but await Income and Expenditure Survey data from Statistics South Africa, with implementation planned for the 2026 Budget.

While welcoming the finalisation of the review of the conditional grant system and the resulting reforms, aiming to rationalise conditional grants and incorporate some into the provincial equitable share over the MTEF period, the Committee recommends that such reforms should bring about the much-needed balance between funding for new and existing projects, by making provision both for constructing new projects and maintaining or refurbishing existing ones.

The National Treasury welcomes the committee's recommendation and supports the use of grants for the development and refurbishment of new infrastructure, which are essential for sustainable growth and effective service delivery. However, grants should not be used to fund maintenance, as this responsibility should be addressed through cost-reflective tariffs, particularly at the local government level. This approach will promote sustainable cost recovery and help prevent further deterioration of infrastructure.

Whilst the Committee welcomes the amendment of the Municipal Structures Act, both the National Treasury and the Department of Cooperative Governance (DCoG) should, over the Medium-term Expenditure Framework (MTEF), develop clear measures to ensure that the implementation of the District Development Model (DDM) is properly funded and ensure that all concerns related to the DDM regulations are addressed with all the relevant role players in local government.

The National Treasury notes this recommendation. Funding priorities of the DDM remain part of the annual budget process. However, it should be noted that the fiscus remains constrained, so there is limited space for additional funding.

Regarding gender-responsive budgeting, the Committee reiterates its previous recommendation that budget is a critical instrument for government to achieve both transformation and inclusive economic growth, and therefore, the Minister of Finance, together with the Minister in the Presidency for Women, Youth and Persons with Disabilities, should ensure that adequate resources are allocated for women, youth and people with disabilities. Furthermore, they should ensure that enough resources are earmarked and transferred to provinces for the implementation of the National Strategic Plan on Gender-Based Violence and Femicide; to help address the scourge of gender-based violence and to ensure proper mainstreaming of gender issues including those of the LGBTQIA+ community.

The National Treasury notes this recommendation. The Department of Women, Youth and Persons with Disabilities is provided with an additional allocation of R20 million in 2025/26, R20.9 million in 2026/27 and R21.8 million in 2027/28.

The National Treasury, together with provincial treasuries should, within 90 days of the adoption of this Report by the House, ensure that provinces develop clear plans and specific measures to find a way to enhance revenue generation mechanisms to augment their equitable share allocations to address the funding challenges in the education and health sectors. Further, the Committee believes that the quality of financial decisions made by provinces also impact on other provinces.

The National Treasury will share this recommendation with provincial treasuries through the appropriate platforms. For example, the National Treasury is committed to supporting provinces through the Provincial Revenue Workgroup, which facilitates benchmarking and sharing best practices. Additionally, the National Treasury will continue monitoring revenue collection and engaging with provinces on mitigation measures to improve revenue outcomes.

REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE SPECIAL APPROPRIATION BILL

The Minister of Finance should approve and gazette the Special Appropriation Bill [B19 – 2024] and the National Treasury, together with the Department of Transport, should ensure that the allocation earmarked for the Gauteng Freeway Improvement Project (GFIP) debt redemption is used effectively and efficiently for the intended purpose, and if there are any conditions for the allocation as suggested by the Organisation Undoing Tax Abuse (OUTA), the National Treasury should follow the due and proper process to publish those conditions to promote budget transparency as enshrined in the Constitution.

The National Treasury notes this recommendation. These funds are earmarked to ensure that they are used for the intended purpose in line with the Special Appropriation Act (2024).

The National Treasury should ensure that any future infrastructure projects implemented by government departments are properly planned, with a proper evaluation exercise, and undergo rigorous public participation, social and economic feasibility studies and the necessary due diligence and scrutiny to avoid similar challenges.

The National Treasury remains committed to assisting departments in improving infrastructure project planning and delivery through existing frameworks, guidance and evaluation mechanisms, ensuring alignment with sound financial and economic principles while respecting the responsibilities of the implementing departments. Additionally, in response to the challenges mentioned, the National Treasury, in collaboration with key government stakeholders, created the Budget Facility for Infrastructure in 2016 as part of broader reforms to improve infrastructure investment planning and execution. However, its role is to provide support and oversight, rather than taking full control of infrastructure planning and execution, which remains the responsibility of individual government departments.

The Committee reiterates its previous recommendation made during the 6th Parliament that it does not encourage the introduction of special appropriation bills unless absolutely necessary and there are exceptional circumstances that dictate this, as this may signal budgeting challenges. When such bills are introduced, it needs to be done timeously, so that Parliament has sufficient time to satisfy itself, engage with the public meaningfully, and process them accordingly to ensure full compliance.

The introduction of a special appropriation bill is undertaken only in exceptional circumstances to address urgent and unforeseen priorities. The National Treasury acknowledges the committee's concerns and remains committed to ensuring that such bills are introduced in a timely manner to allow Parliament adequate time for meaningful deliberation, public engagement and proper processing. Special appropriation bills are not indicative of systemic budgeting challenges but rather a mechanism to address specific critical needs while maintaining fiscal accountability and transparency. The National Treasury values Parliament's oversight role and will continue to ensure full compliance with legislative processes.

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