2024 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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2024 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 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 providing reasons for deviating from these recommendations. The recommendations to which this annexure responds are contained in:

- Budgetary review and recommendation reports 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 where they relate to the National Treasury.

Several committees recommended making additional budget allocations available for certain programmes, sub-programmes or other budget items. Due to the constrained fiscal position, there is limited scope to do so. Consequently, departments, public entities and other institutions are required to reprioritise existing funds for 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 receives regular updates on engagements between the Department of Employment and Labour and the National Treasury on preferential procurement status of the Sheltered Employment Enterprises (SEE).

As noted in the 2023 Budget, 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.

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

According to the National Treasury Instruction No. 12 of 2020/2021, public entities listed in Schedules 3A and 3C of the Public Finance Management Act (1999) must, through their designated departments, apply to retain cash surpluses with the necessary motivations for its use. Surpluses that are surrendered to the National Treasury are re-deposited into the National Revenue Fund and cannot be reallocated in-year. Allocation of funding is part of the normal annual budget process and is dependent on the fiscal framework adopted.

Application should be made to the National Treasury to retain the budget surplus of the CCMA because of unforeseen or unavoidable circumstances.

The National Treasury informed the CCMA in September 2023 that its application to retain the 2022/23 surplus of R36.1 million had been approved.

PORTFOLIO COMMITTEE ON HIGHER EDUCATION, SCIENCE AND TECHNOLOGY

Additional resources and support should be provided for the Community Education and Training (CET) sector so that it can move from its development state and become the institution of choice for many young people and adults who are not in education, training, or employment. These colleges should also assist with the provision of programmes informed by their local economic needs.

Enrolments in the CET sector have been below target for the past three years, reaching 54 per cent of the target in 2022/23 and 36.7 per cent of the target in the first six months of 2023/24. Nonetheless, the CET sector received an additional allocation of R1.1 billion over the 2023 medium-term expenditure framework (MTEF) period for CET infrastructure. This allocation was subsequently reduced by R200 million in the 2023/24 adjusted budget as no funds were spent in the first six months of 2023/24 due to lengthy planning processes.

While cognisant of the current fiscal constraint, consideration for additional funding should be made to enable the Council on Higher Education (CHE) to carry out the increased scope of work, make progress in implementing the Digital Transformation strategy so that the CHE can carry out its work effectively in a 21st century world and in the context of the 4IR, resource the additional transformation oversight function, increase the capacity of the CHE to bring the public and private higher education colleges more closely into its quality assurance oversight given that the higher education sector is much bigger now than in the earlier years of the CHE, the private higher education sector is growing rapidly, and to address the proliferation of bogus education institutions and have a fit-for-purpose organisational structure that matches the work that needs to be done, especially as it introduces the new Quality Assurance Framework.

The CHE's baseline was increased by an additional allocation of R19 million in 2022/23 and R25 million in 2023/24 to assist in implementing its mandate and to address critical capacity needs.

Additional funding to the South African Qualifications Authority (SAQA) should be considered over the MTEF period to enable SAQA to fund automation and digitisation, verification of South African qualifications and the National Qualifications Framework (NQF) Chair (Research) and implement the phased-in approach of the automation Project Phoenix.

Departments and public entities are advised to reprioritise funds within their existing baselines to fund spending pressures and emerging priorities. For example, SAQA can consider reprioritising its allocation for performance bonuses to fund the abovementioned priorities. Furthermore, the National Treasury approved SAQA's request to retain its 2022/23 accumulated surplus of R90.8 million – some of which will be used for the projects mentioned above.

The Minister of Higher Education, Science and Innovation should continue his efforts with the National Treasury around the Science, Technology and Innovation (STI) Public Budget Coordination Mechanism to secure additional funding for the science and innovation portfolio.

The National Treasury is part of the STI budget coordination task team, which was established to improve planning and budget coordination of science, technology and innovation. The introduction of the STI budget coordination process will give STI more prominence in intergovernmental planning and is expected to improve the coordination of public funding for STI across government. Priority sectors have been identified for tagging to help monitor and track spending in upcoming budget processes.

The Minister of Higher Education, Science and Innovation, the National Treasury and South African National Space Agency should resolve the issues around the release of the funds allocated to the Space Infrastructure Hub since this is crucial for the development of high-level technological capability.

The National Treasury is working with the Department of Science and Innovation and the South African National Space Agency to address all gaps identified in the Budget Facility for Infrastructure (BFI) appraisal report and align with the BFI requirements, so that funds are made available for the Space Infrastructure Hub project. The National Treasury, through the BFI, has provisionally allocated R775.6 million to be disbursed in 2023/24 and R434 million over the rest of the 2023 MTEF period to the South African National Space Agency for this project.

The National Treasury, cognisant of the need for the country to grow its technological capabilities to enhance its competitiveness, exempts the science and innovation portfolio from any proposed budget cuts.

The National Treasury notes the committee's concerns about budget reductions. However, the fiscal constraints remain serious, and this has made spending reductions to departments and entities unavoidable. The Department of Science and Innovation is advised to reprioritise existing funds for emerging priorities.

PORTFOLIO COMMITTEE ON SPORT, ARTS AND CULTURE

The Department of Sport, Arts and Culture requires additional funding for operational transfers to entities. The overwhelming majority of the entities have expressed concerns about insufficient budget allocation to implement their legislative mandates. As per the 2023 ENE, the total expenditure estimate for the Department will decrease to R6.16 billion in 2024/25 followed by an *increase to R6.44 billion in 2025/26. Given the vast mandate of the sector, there is a growing outcry that the allocation to 27 entities is insufficient to ensure a comprehensive approach to the promotion and development of the sector, and the safeguarding of heritage assets.*

The budget allocation to the department decreases in 2024/25 as funding for the presidential employment initiative ends in 2023/24, and then increases in line with inflation in 2025/26. Given the current economic climate, no additional funding is available. Any additional allocation to public entities will have to be done through reprioritising funds within departmental allocations. The department advised the National Treasury that it is implementing the recommendations of the Revised White Paper on Arts, Culture and Heritage, which will reduce the number of public entities, audit committees and boards to about eight flagship entities. The National Treasury has advised the department to implement a shared service model for support service functions among its entities to reduce their administration cost and make funding available for service delivery in these entities.

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 (DWYPD) and the Commission for Gender Equality (CGE).

As noted previously, the National Treasury considers condonation requests in line with the irregular expenditure framework when these requests are submitted by the department or the CGE.

The committee requests the National Treasury to consider the requests for roll-over of funds for the DWYPD and the CGE.

As noted previously, 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.

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

As noted at the beginning of this section, there is little scope to provide additional funding at this time. The National Treasury continues to work with all departments that have a mandate to promote youth employment to explore any opportunities for advancing these objectives.

The committee requests the National Treasury to assess the DWYPD’s use of consultants as the committee is concerned about the over reliance of the department on consultants and report back to the committee accordingly.

The National Treasury notes the committee’s recommendation. The National Treasury will review the cost implications and possible inefficiencies related to the department’s use of consultants and will provide a report to the committee when required.

PORTFOLIO COMMITTEE ON SMALL BUSINESS DEVELOPMENT

The late and/or non-payment of invoices has a major negative impact on the financial health of suppliers, who are frequently forced to borrow money to stay afloat financially and satisfy their contractual responsibilities with the state entities. Despite the fact that the department has done well in terms of paying its creditors within 30 days, achieving 100 percent during the year under review, its approach however, is internally focused or inward-looking. As the guardian of small business growth, the department must establish an indicator for implementation in collaboration with National Treasury to track delinquent invoices. Where state organs are failing to pay uncontested invoices within 30 days, SEFA [Small Enterprise Finance Agency] must be on standby to pick up the tab through cession arrangements. This indicator must be included in the upcoming MTSF [medium-term strategic framework] and APPs [annual performance plans].

With the guidance of the Department of Planning, Monitoring and Evaluation, the National Treasury will support the Department of Small Business Development to develop an indicator intended to track past-due invoices through the 2024/25 annual performance plan process.

PORTFOLIO COMMITTEE ON TRADE, INDUSTRY AND COMPETITION

The committee encouraged the Department of Trade, Industry and Competition (DTIC), in conjunction with National Treasury and the automotive industry stakeholders, to continue to seek a solution to ensure that South Africa is able to compete in terms of the manufacturing of new energy vehicles (NEV).

The DTIC has reprioritised R964 million over the medium term towards the NEV transition. These measures complement funding that is being secured for the Just Energy Transition Investment Plan and the implementation plan for electric vehicles.

PORTFOLIO COMMITTEE ON TOURISM

The National Treasury should conduct a cost-benefit analysis of merging South African Tourism and Brand South Africa and provide some advice on the appropriate trajectory to be taken by government in this regard. There is a duplication of functions between SA Tourism and Brand SA and the merger of the two entities will result in them being more impactful on issues around branding, marketing, and investment in South Africa. Brand SA reporting to the Department of Tourism will also ensure a more efficient use of financial resources.

The National Treasury agrees that there is a need for government to reduce the duplication of functions in departments and public entities. The National Treasury will consider this recommendation within the broader government strategy to rationalise public entities and non-performing programmes over the next three years.

The National Treasury should provide ring-fenced budget for developing and promoting domestic tourism in South Africa to assist the country to be on par with other mature 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 reprioritised R540 million over the 2022 MTEF period to establish the Tourism Equity Fund. Furthermore, government, in collaboration with the tourism sector, is facilitating the maintenance of tourism infrastructure and the expansion of access to funding to protect tourism assets and infrastructure.

PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS

The committee wishes to impress on National Treasury the need to continue funding its prior commitments to this committee over the MTEF as it relates to the funding of border safeguarding technology and border patrol vehicles, the midlife upgrades of the South African Navy frigates and submarines and the upgrading of the South African Air Force airlift capability. The committee further stresses the importance to keep funding these upgrades beyond the MTEF in order not to undo the progress made through current allocations and to ensure operational stability in terms of prime-mission equipment.

The National Treasury notes the committee's recommendation and continues to work to seek ways to address shortcomings within the constrained fiscal environment. The National Treasury will continue to earmark funds allocated in the 2023 Budget towards border safeguarding technology and border patrol vehicles as well as the midlife upgrades of the South African Navy frigates and submarines. This will ensure that baseline reductions do not affect these items and these funds may not be used for any other purposes.

The committee notes a number of adverse findings by the Auditor General of South Africa (AGSA) related to the Department of Defence's (DoD) procurement systems and its logistics management systems and that these are underscored by outdated ICT systems and infrastructure. The Committee therefore recommends that National Treasury provides the DoD with an additional ring-fenced allocation for the upgrading of ICT systems in the procurement and logistics management environments. The committee believes this will contribute to less adverse findings and better internal management in the DoD in the long term. The committee will track such improvements over the next MTSF.

During the 2024 MTEF budget process, the National Treasury advised departments and entities to reprioritise funds towards emerging priorities. The National Treasury also provides support and advice through the Office of the Accountant-General and the Office of the Chief Procurement Officer in respect of measures to improve internal controls and audit compliance.

The committee recommends an urgent engagement between the South African National Defence Force (SANDF) and National Treasury in relation to funding for environmentally controlled warehouses in the SANDF. These warehouses house a significant percentage of the SANDF's strategic equipment reserves. The failure to store them in the correct environments will not only impact on the SANDF's operational capability but could also have major long-term financial implications. The committee recommends that National Treasury ascertain which of these warehouses are of most strategic value and that these be funded through a ring-fenced allocation.

The National Treasury is open to engaging with the Department of Defence on a funding mechanism for environmentally controlled warehouses. The department is responsible for identifying strategic warehouses.

The committee remains concerned about the limited progress in addressing compensation of employees over expenditure in the DoD and is therefore of the view that a long-term, permanent *solution is required through the development of a sustainable rejuvenation model for the SANDF. In line with the committee's September 2023 Study Tour Report, the committee recommends to the DoD to develop a new human resources management strategy or adjust the current strategy to ensure long-term stability in the SANDF's personnel contingent by focusing specifically on force rejuvenation. It is recommended that this plan be developed in consultation with 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 DoD.*

The National Treasury agrees and has made a similar recommendation to the department in the past. No tangible progress has been made. The National Treasury is open to engaging with the Department of Defence on the matter and commenting on the rejuvenation strategy if required.

Based on a recommendation of Parliament's Joint Standing Committee on Defence (JSCD) on 21 September 2023 in relation to the Military Ombud, the committee requests that the ceiling for compensation of employees be increased marginally to accommodate the current expenditure levels of the Office of the Military Ombud.

The National Treasury notes the committee's recommendation. Although the National Treasury has earmarked the allocation to the Office of the Military Ombud to protect the entity's baseline and to provide certainty of the allocation, the entity's budget for compensation of employees can be adjusted within the departmental baseline.

The committee has noted that the SANDF has been deployed in support of the South African Police Service to counter illegal mining at an estimated cost of R492 million. However, the committee also noted that this deployment is unfunded as of November 2023 and no funds were allocated in the 2023 Adjusted Estimates. The Minister of Finance should ensure that that the DoD is sufficiently funded for all additional deployment requirements and provide the committee with information on how this deployment will be funded.

The deployment of SANDF to support the police in countering illegal mining activities is funded through the Criminal Asset Recovery Account (CARA) administered by the Department of Justice and Constitutional Development. Final allocation decisions on CARA are made by Cabinet and thereafter communicated to qualifying departments. An amount of R150 million over three years has been earmarked for the Department of Defence within CARA to support this deployment. Before this deployment, the Department of Defence was made aware that funding related to this deployment would be strictly funded by CARA and not the fiscus.

PORTFOLIO COMMITTEE ON JUSTICE AND CORRECTIONAL SERVICES

The importance of Legal Aid SA's contribution to the smooth functioning of the criminal justice system should be taken into account when allocations are made. Legal Aid SA has had to reduce court coverage in past years and there is no relief capacity. Without legal representation, cases cannot run, causing delays, and contributing to backlogs. In addition, its civil work assists many poor *and vulnerable persons, who would not otherwise have access to legal representation or advice. Legal Aid SA should be allocated funds for fees due to legal practitioners in land matters for pending instructions held on 1 January 2022, which remain unfunded.*

Consistent with the committee's recommendation, R156 million is shifted from the Department of Agriculture, Land Reform and Rural Development to Legal Aid South Africa over the 2024 MTEF period to deal specifically with fees owed to legal practitioners handling land-related matters pertaining to instructions pending as of 1 January 2022.

Concerning the South African Human Rights Commission and Public Protector South Africa, the Committee does not support any budget cuts to their allocations.

The National Treasury notes the committee's concerns. However, serious fiscal constraints have made spending reductions to departments and entities unavoidable. Reprioritisation is advised to fund spending pressures and emerging priorities.

PORTFOLIO COMMITTEE ON POLICE

The committee recommends that funds for the recruitment of additional personnel should be made available as the balance left between staff attrition and the 10 000 recruits does not address the needs of the department.

The National Treasury notes the committee's recommendation. Additional funding of R8.7 billion and R7.8 billion was approved in the 2022 Budget and the 2023 Budget, respectively, to strengthen police capacity. Fiscal constraints remain serious, and this has made spending reductions to departments and entities unavoidable. Despite these constraints, an additional allocation of R22 billion is provided to the department over the medium term to cover the carry-through costs of the 2023 public-sector wage agreement and help strengthen its capacity.

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 in order to prevent future disputes during the audit process linked to these terms.

The National Treasury will 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 DTIC. The Department of Transport is thus advised to refer all queries relating to B-BBEE compliance to the DTIC 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.

To date, the National Treasury has not received any alternative revenue source proposals from the Department of Transport and its entities for consideration in 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. For example, in 2021/22, the Road Traffic Management Corporation proposed alternative revenue streams, which were approved by the Minister of Finance.

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 (SANRAL) and the National Treasury to finalise the funding issues linked to the Gauteng Freeway Improvement Project (GFIP) e-tolling matter.

Following the announcement by the Minister of Finance during the 2022 MTBPS that national government will take over the obligations of SANRAL for phase 1 of the GFIP, the Gauteng provincial government agreed to pay 30 per cent of the total outstanding debt as at October 2022. This amounts to R12.9 billion of the outstanding debt of R47 billion. The province still needs to show how it will fund this from its own revenue sources over a maximum of five years. Other matters related to the finalisation of the agreement deal with maintaining the network, which includes rehabilitating roads. Agreement has yet to be reached between the national government and the Gauteng provincial government on how these costs will be shared.

PORTFOLIO COMMITTEE ON WATER AND SANITATION

The committee recommends that the Minister of Finance should approve the rollover application of R722.7 million in the 2023/24 financial year to enable the Department of Water and Sanitation to complete various identifiable committed, contracted and accrued projects and activities which started in the previous financial year under the Water Services Management programme and projects.

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 are included in the Adjustments Appropriation Bill. The rollover application was considered but it did not meet the criteria for rollover approval. The department has reprioritised R308.9 million from the 2023/24 budget to fund the projects that were awaiting the rollover outcome. During the 2023 adjustments budget process, the National Treasury granted approval to the department to shift funds from the indirect component of the *regional bulk infrastructure grant* to the *water services infrastructure grant* for the programme and projects mentioned above.

PORTFOLIO COMMITTEE ON HOME AFFAIRS

More budget should be allocated to expand mobile units with reliable network connectivity to be dedicated to schools and the elderly.

The National Treasury notes the committee's recommendation. Reprioritisation is advised to fund spending pressures and emerging priorities.

The Independent Electoral Commission (IEC) will require additional funding in the adjusted budget to allow for extensive voter education and mobilisation given the changes to the electoral laws around independent candidates.

The National Treasury's engagements with the IEC have shown that costs related to the 2024 national and provincial elections can be accommodated within the entity's baseline through the retention of surplus funds. Furthermore, the baseline reduction of R250 million in 2024/25 outlined in the 2023 MTBPS has been reversed.

PORTFOLIO COMMITTEE ON PLANNING, MONITORING AND EVALUATION

The National Treasury should increase funding of the Department of Planning, Monitoring and Evaluation (DPME) in order to build research and development and modelling capabilities.

The DPME has underspent its allocated budget in recent years (by R12.8 million in 2020/21, R62.5 million in 2021/22 and R38.8 million in 2022/23), so it has scope to reprioritise funds to build research and development capabilities.

The National Treasury should increase funding for Brand South Africa.

The National Treasury notes the committee's recommendation and advises reprioritisation to fund spending pressures and emerging priorities. The National Treasury further notes recommendations from the Portfolio Committee on Tourism to address duplication and inefficiency by merging the functions of Brand SA with at least one other relevant entity.

STANDING COMMITTEE ON FINANCE

The committee commends the South African Revenue Service (SARS) for its exemplary fiscal discipline, demonstrated by the efficient allocation and utilisation of its entire budget for two consecutive years. The committee also acknowledge the ongoing issue of underfunding facing SARS and reiterate our call for the National Treasury to consider augmenting SARS' resources.

The National Treasury will continue to engage with SARS on its funding challenges. An additional amount of R500 million per year over the 2023 MTEF period was added to SARS' budget to fund its capital and information and communications technology projects. In addition, R1 billion was provided to SARS during the 2023 adjustments budget process to improve its revenue-raising capabilities. A further R1 billion per year in 2024/25 and 2025/26 is allocated to SARS depending on its ability to meet the set conditions.

RECOMMENDATIONS OF THE STANDING AND SELECT COMMITTEES ON FINANCE ON THE 2023 REVISED AND PROPOSED FISCAL FRAMEWORK

Recognizing the impact of structural constraints on economic growth, the Committee strongly recommends the swift implementation of energy and logistics improvements, encompassing comprehensive measures to overcome challenges in these critical sectors and unlock their potential for economic development.

The National Treasury agrees with this recommendation.

In expressing concern over the performance of SOEs, particularly Transnet and Eskom, the Committee recommends that NT, together with the Department of Public Enterprises, share detailed turnaround strategies for these entities before the tabling of the 2024 Budget. The Committee will confer with the Portfolio Committee on Public Enterprises for the feasibility of a joint meeting.

The Department of Public Entities, as the shareholder representative for Eskom and Transnet, will lead this presentation. The National Treasury will provide inputs and assistance where required.

Given the downward revision in GDP growth attributed to lower household consumption, the Committee proposes policies to stimulate household spending as the most appropriate way of driving growth. This may involve targeted interventions to address inflation and interest rate impacts on consumer behaviour.

The National Treasury notes this recommendation. Chapter 2 discusses both the drivers of forecasted GDP growth as well as the medium-term strategy for raising economic growth in a sustainable manner. In addition, chapters 3 and 5 set out details of expenditure on government programmes that support the poor and provide employment opportunities. The National Treasury further notes compelling evidence that downward revisions to GDP growth are related to poor electricity supply that stifles investment and job creation, logistics constraints which harm business activity and poor effectiveness of public investment initiatives. The National Treasury has made a number of recommendations to address these challenges.

The Committee recommends close monitoring of inflation, particularly in relation to fuel and food prices. Mitigation strategies should be developed to address potential risks such as oil price increases, currency fluctuations, and other factors influencing the inflation outlook.

The National Treasury notes this recommendation.

To address the persistently high unemployment rate, the Committee recommends a comprehensive approach that goes beyond short-term GDP growth. Government should also implement comprehensive economic interventions to stimulate the demand-side of the economy, focusing on infrastructure development, education, and skills training, fostering innovation, and creating a favourable business environment to attract investments. Additionally, targeted policies to support small and medium enterprises, reduce bureaucratic hurdles, and address social inequalities can contribute to job creation and sustainable economic growth.

South Africa’s increasing unemployment rate is primarily due to growth in the labour force outpacing job growth. The long-term prospects for employment ultimately depend on the pace at which low growth and other structural impediments are addressed. Chapter 2 discusses government’s strategy to address these matters.

The current account deficit is expected to widen due to increased imports for renewable energy investments and higher oil prices, posing risks to the domestic growth outlook. To address the balance of payments concerns, the Committee recommends far more commitment to beneficiation, which in turn will create more jobs, strategies to boost exports, potentially through trade diversification and increased competitiveness. Mitigating risks, such as inflation and household indebtedness, should be prioritized to enhance economic stability.

The National Treasury notes this recommendation.

While these energy reforms are promising, there’s a need for a comprehensive economic impact assessment. The Committee recommends conducting a thorough analysis of the expected contribution of these energy projects to overall economic growth. This analysis should include the potential job creation, increased industrial activity (including through localisation), and the effect on *the current account balance. A transparent evaluation will provide a basis for further strategic decisions in the energy sector.*

The National Treasury will continue to support the Department of Mineral Resources and Energy in evaluating energy sector policy proposals.

The positive momentum of private sector contributions to the clean energy transition, specifically in the realm of rooftop solar capacity, is evident. Eskom's data highlights a substantial installation of 4,412 MW of rooftop solar capacity, underscoring the private sector's pivotal role in advancing renewable energy objectives. Encouraged by this advancement, the Committee suggests exploring additional strategies to stimulate private sector involvement. This includes providing regulatory support and establishing frameworks to facilitate public-private collaborations. While promoting the expansion of renewable energy, the Committee recommends that the government upholds the current generation capacity within Eskom to ensure a smooth and uninterrupted transition to renewable energy sources.

The National Treasury notes this recommendation.

Committee recommends a detailed examination of the economic costs incurred due to Transnet's operational failures. This should include a breakdown of the estimated R411 billion cost and its impact on the current account balance. Additionally, the ongoing reforms, such as the separation of operations and infrastructure management functions, should be closely monitored for their effectiveness. A transparent and accountable approach to these reforms will be essential for restoring confidence in the rail and ports system.

The National Treasury notes this recommendation.

While the MTBPS does not deal with revenue proposals, the Committee recommends NT seriously consider, beyond their initial response, to various revenue proposals proposed by stakeholders during the Committee's public hearings. NT and SARS are encouraged to explore measures that will enhance revenue diversification, reducing dependence on specific sectors vulnerable to global economic fluctuations. This could involve incentivizing diverse economic activities and industries to contribute to a more resilient revenue base.

The tax proposals from public submissions on the 2023 MTBPS were considered as part of the policy deliberations ahead of the 2024 Budget. Tax policy proposals are outlined in Chapter 4 and Annexure C.

In 2018, the VAT rate experienced its first democratic-era increase, rising from 14 to 15 per cent. This adjustment sparked significant controversy, prompting the 5th Parliament Finance Committees from the NA and NCOP to conduct three rounds of public hearings and engage extensively with stakeholders starting from March 2018. A unanimous opposition to the VAT increase emerged from various stakeholders. In response, the Minister of Finance established a Panel of Experts to explore measures mitigating the impact of the increase, particularly on impoverished households. The Panel, after extensive consultations with the public, labour, business, and civil society, issued a report recommending the addition of more items to the zero-rated VAT exempt list.

The National Treasury notes this comment.

The Committees then, expressing serious reservations about the VAT increase due to its adverse effects on the poor and lower-income households, recognized the pressing budgetary constraints and the urgent need to generate additional revenue. The Committees reluctantly accepted the increase, contingent on a review. Amendments to the Tax Administration Laws Amendment Bill, 2018, mandated the Minister of Finance to conduct a review of the VAT increase's impact on revenue collection and the poor, presenting a written report to Parliament by no later than 30 June 2021. It is on these bases that the Committee recommends that the zero-VAT-rated food basket be expanded for households.

The National Treasury notes this recommendation. A review process was conducted, and a report titled *Evaluating the Impact of VAT Rate Increase in April 2018* was prepared. As of April 2019, the VAT system zero rated 21 basic food items. In 2019/20, this was estimated to cost the fiscus about R31.7 billion in foregone revenue.

A comprehensive review of tax incentives is essential to ensure their effectiveness in stimulating economic activity and promoting the desired behaviour. The Committee emphasizes the need for NT and SARS to conduct a thorough assessment of existing tax incentives, considering their impact on revenue collection, job creation, and overall economic growth. The review should also evaluate the alignment of tax incentives with broader policy objectives and assess whether they effectively contribute to achieving desired outcomes. Recommendations for adjustments or modifications to the existing tax incentive framework may be necessary based on the findings of this review.

The National Treasury is already implementing this recommendation. The 2020 Budget announced that tax incentives would be systematically reviewed over the medium term. Incentives found to be redundant, inefficient or inequitable would be repealed or redesigned. Results of this review have been published in the succeeding *Budget Review* publications and the reviews will continue over the medium term. In the 2020 Budget, government proposed the introduction of sunset dates for various corporate incentives, with the aim of reviewing these incentives before the sunset date to determine whether they should be extended. The sunset dates ensure that incentives do not remain in the system indefinitely, without some form of oversight. In addition, between 2017 and 2019 the Department of Planning, Monitoring and Evaluation reviewed the national system of business incentives to identify improvements. The National Treasury, working with the department and other stakeholders, is implementing recommendations from this review, including developing a single register of all incentive beneficiaries, developing a national policy incentive framework, and creating a methodology to evaluate the costs and benefits of incentives.

The Committee re-emphasises that the risk factors of not factoring in the real costs of the public sector wage bill in the budget results in government's response to manage the 2023/24 public sector wage increase, which emphasizes the need for other departments to absorb the wage hike within their baselines. This strategy includes implementing controls on payroll systems to ensure that executive authorities operate within their budgets when creating and filling vacant posts. Factoring in real costs to the budget over the MTEF as stakeholders have on an annual basis raised, should be the preferred approach going forward.

During the Public Service Labour Summit in 2022, government agreed with labour that the wage negotiations cycle needs to be aligned with the budget process. Ideally, wage negotiations should conclude before the finalisation of the budget for the subsequent financial year to ensure the credibility of the fiscal framework.

Given the anticipated rise in government spending, the Committee recommends a vigilant approach to expenditure management, without sacrificing service delivery. It suggests implementing efficiency measures across government to ensure that allocated funds are utilized effectively, optimizing the impact of spending on social welfare and economic development. NT must take on greater responsibility to ensure the quality and performance of expenditure across departments and entities.

The National Treasury notes the recommendation. The 2023 MTBPS outlines a balanced fiscal stance to rebuild the public finances while maintaining the social wage. Over the next three years, the fiscal framework supports strong control of the public-service wage bill, protection of critical frontline services and the implementation of efficiency measures. The National Treasury will continue to monitor the effectiveness and efficiency of expenditure as part of the established in-year monitoring system and report to Parliament on a quarterly basis.

Regarding the reduction in the in-year expenditure attributed to proposed reductions in department baselines and declared unspent funds, the Committee calls on NT to assess the potential effects of reduced spending on services and programs. It also calls for the prioritization of critical spending, ensuring that reductions do not compromise services and commitments.

As outlined in the 2023 MTBPS, spending revisions are targeted to protect critical frontline services, including basic education, health and police services. Budget proposals have sought to cushion the blow of spending reductions on these and other areas of spending when the opportunity allows. Over the medium term, government will review and reconfigure executive functions. The changes are expected to lead to reduced executive responsibilities, higher fiscal credibility and savings in non-interest expenditure.

Recognizing the rationale provided by the NT for the allocation of R300 million towards political party funding in the preceding year, the Committee emphasizes the importance of transparency and seeks further clarification regarding this expenditure.

The National Treasury notes the Committee’s view. The IEC will monitor how political parties spend funding allocated to them through the financial statements and information submitted by political parties.

The Committee emphasizes the importance of continuous monitoring and proactive risk mitigation. It recommends a comprehensive risk management strategy to address potential challenges, such as weaker-than-expected economic growth, losses by municipalities and state-owned companies, and higher borrowing costs.

The National Treasury monitors high-risk entities through its monitoring meetings and structures like the National Energy Crisis Committee and the National Logistics Crisis Committee. Separate from these committees, the National Treasury has monitoring meetings with Eskom and Transnet where it monitors compliance with guarantee and loan conditions. Significant economic and fiscal risks are discussed in Chapter 2 and Chapter 3, respectively.

Acknowledging the risks outlined in the fiscal outlook, the Committee recommends maintaining adaptability in fiscal strategies. Prudent fiscal management is crucial to navigate evolving economic conditions, ensuring that the fiscal framework remains resilient in the face of uncertainties.

The National Treasury agrees with the recommendation.

The Committee recommends closely monitoring the effectiveness of spending revisions and efficiency measures to ensure the envisaged debt stabilization.

The National Treasury agrees with the recommendation.

The Committee advocates for a comprehensive review of debt management practices, exploring avenues to optimize borrowing costs, and implementing risk mitigation measures to ensure fiscal sustainability.

The National Treasury notes the recommendation.

Despite existing expenditure ceilings, deficits and debt have continued to grow, leading to considerations of additional rules for fiscal sustainability. The Committee suggests a thorough review of the effectiveness of existing fiscal rules and emphasizes the need for clear, binding measures to ensure fiscal sustainability.

The National Treasury agrees with this recommendation and looks forward to working with the committee to develop the appropriate set of fiscal rules that will make fiscal policy more sustainable, transparent and predictable. Chapter 3 explains the work under way on fiscal rules. The National Treasury will brief the committee at the most appropriate date.

The Committee stresses the importance of transparent communication from the NT regarding fiscal policies and their implications. Regular updates and clear communication on the rationale behind fiscal decisions will contribute to building public understanding and confidence in the government's fiscal management.

The *Budget Review* and the MTBPS publications provide details on the fiscal strategy and policies each year. Public hearings allow members of the public and Parliament to discuss these matters.

The Committee recommends that the government uphold transparency and accountability in its financial dealings with international financial institutions such as the International Monetary Fund (IMF) and the World Bank (WB). It is imperative that the details of any funds acquired from these institutions, including the preconditions that had to be met, and how these preconditions were met, are communicated openly to the public. This transparency ensures that citizens are informed about the utilization of international funds, promoting trust and understanding in government actions and fostering a sense of shared responsibility for the nation's financial well-being.

The financial terms of loans that South Africa obtains from the IMF and other international financial institutions are published in Chapter 7 of the *Budget Review* and Chapter 3 of the MTBPS. In addition, government issues a press statement after concluding loan negotiations. The loan details can also be found on the websites of international financial institutions and the National Treasury.

The Committee expresses its concerns about government securing IMF and WB loans without Parliament having any say. The Committee also needs to be briefed about why loans, where *necessary, are not being secured from the BRICS Bank. The Committee recommends that legislation be introduced within three years to provide for parliamentary oversight of all IMF and WB loans in South Africa by the relevant parliamentary committees.*

Government raises funding in foreign currencies to meet its foreign exchange obligations such as interest payments and capital repayments. Chapter 7 of the 2024 *Budget Review* indicates the foreign exchange financing requirements over the medium term. To date, government has received three loans totalling US$3 billion from the New Development Bank. In addition, the National Treasury is consulting with the bank's Africa Regional Centre to increase borrowing. The centre has an annual target to approve US$2 billion in projects in South Africa.

The Committee notes the initiation of state reconfiguration and the proposal to restructure government programs based on spending reviews. While recognizing the need for efficiency, the Committee recommends close parliamentary oversight to ensure that these reforms align with developmental goals and do not compromise critical services. As a start, the Committee requires to be briefed by NT on the outcome of its spending reviews and quality of expenditure by departments and entities assessment.

The National Treasury is available to brief the committee on the outcome of the spending reviews and will await further guidance from the committee on timelines.

The Committee notes significant process and financial support for a structured and systemic approach to inclusivity and promote gender equality in the country. The Committee reiterates that NT integrates a robust gender-responsive budgeting mechanism into future budgetary processes. This should involve a detailed analysis of how budgetary allocations contribute to addressing gender disparities and supporting initiatives that advance the well-being of women and other marginalized groups, including gender-sensitive fiscal policies that align with broader national development goals.

The National Treasury is working with other departments to facilitate the implementation of gender-responsive budgeting across government. As part of the first phase of the gender-responsive budgeting roadmap, the tagging framework has been developed and nine national departments participated in the tagging methodology pilot. Those who have data on the gender empowerment gap will be part of the mini gender budget statement to be published in the 2024 MTBPS.

Based on the insights provided by the Western Cape Commissioner for Children during the 2023 MTBPS, the Committee recommends the adoption of child-centered governance practices. This involves incorporating innovative and accessible communication methods, such as drawings, stories, cartoons, infographics, and platforms like TikTok, to effectively engage with children and consider their perspectives in government decision-making.

The National Treasury notes the recommendation. The National Treasury and civil society provide videos on the online portal vulekamali.gov.za that promote budget literacy and present budget information in graphic format to attract youth, among other social groups.

To address concerns about the intergenerational impact of government debt on children, the Committee recommends a thorough assessment of the potential consequences, with a specific focus on vulnerable groups. The recommendation includes exploring alternative fiscal measures to alleviate the burden on children, particularly those from economically disadvantaged backgrounds.

The National Treasury notes the recommendation. As mentioned in various budget publications, the National Treasury takes care to consider the impact of fiscal measures on vulnerable groups and sectors, and particularly the impact of these measures on service delivery.

Considering the Commissioner's warnings about the potential adverse effects of increased VAT on poor children and families, the Committee strongly recommends against VAT hikes. Instead, it suggests exploring alternative revenue-generation strategies that do not disproportionately affect vulnerable sector. The Committee encourages ongoing collaboration with child advocacy groups and experts to ensure that fiscal policies prioritize the well-being of children and safeguard their future.

The National Treasury notes the concerns raised about the VAT rate increase. VAT is a stable and efficient source of revenue, representing about 26 per cent on average of gross tax revenue. A rate increase was necessary to help fund government's expenditure programmes, including initiatives to help children and poor families through the social grants system.

Most of the non-interest spending is allocated to the social wage, and there are proposals to repurpose public employment programmes. The Committee requests NT to provide detailed plans on the coordination of public employment programmes.

Public employment programmes are largely made up of the Expanded Public Works Programme (EPWP), Community Works Programme (CWP) and the presidential employment initiative (which includes the Presidential Youth Employment Intervention). These programmes are implemented through various government departments. The EPWP is coordinated mainly through the Department of Public Works and Infrastructure, the CWP is coordinated through the Department of Cooperative Governance and the presidential employment initiative is coordinated through the Presidency. The aim going forward is to evaluate all public employment programmes, mainly to address fragmentation issues, ensure better coordination and inform funding decisions.

The Committee welcomes the extension of the SRD Grant and seeks clarification on the potential conversion of the SRD Grant into a Basic Income Grant (BIG).

The 2023 MTBPS proposed that the fiscal framework make provision for funding for the *COVID-19 social relief of distress grant* for 2024/25. Any extension of the grant, or any replacement thereof, needs to be funded by a new revenue source or reprioritisation of other spending items. Government is still discussing options for a replacement grant and the balance between policy options to support higher employment.

Committee welcomes the reported improvements made to remove South Africa from the FATF grey list by NT and notes the challenges that remain. However, far more needs to be done quicker. The Committee requires NT and all the relevant Departments and agencies to provide a detailed briefing on progress being made to exit the grey listing before the tabling of the Budget in 2024.

The National Treasury is available to brief the committee on this matter. Annexure E provides an update on the progress made to exit the grey listing.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2023 MTBPS AND ADJUSTMENTS APPROPRIATION BILL

That government should ensure that all qualifying students benefit from the National Student Financial Aid Scheme as this is an adopted policy of government and no student should be denied entry to institutions of higher learning because of lack of funding. Government must always make funds available for qualifying students, as long as the free-fee higher education is a policy of government.

The National Treasury notes the recommendation. The National Student Financial Aid Scheme has a proposed allocation of R146.9 billion over the MTEF period for student bursaries and the management thereof.

The committee recommends that government expedite the process and consultations around social security policy reforms and funding models to end the uncertainty around the Social Relief of Distress Grant.

The National Treasury notes the recommendation.

That government ensures that fiscal consolidation does not compromise infrastructure investments in the health sector primarily because these health infrastructure projects are benefiting the poor majority of South Africans.

The National Treasury notes the recommendation.

That government must consider conducting a socio-economic impact assessment of fiscal consolidation on the poor household and communities living in high levels of poverty in order to avoid the strides made by government in reducing poverty and inequity in South Africa.

The National Treasury notes the recommendation.

That the Minister of Human Settlements and the Minister of Finance must ensure that the Department of Human Settlements and National Treasury speedily engage to find a solution to the funding model of the Community Schemes Ombud Service (CSOS), to avoid any delays in the implementation of the directives of the Auditor General of South Africa.

The funding arrangements of the CSOS are set out in the Community Schemes Ombud Service Act (2011) and the accounting authority of the entity is responsible for meeting obligations related to managing revenue, expenditure, assets and liabilities.

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 frameworks in line with Section 15(2) of the 2023 Division of Revenue Act.

The National Treasury notes the recommendation.

The Committee is concerned about infrastructure projects overshooting budget allocations; thus, it is recommended that government ensures that proper checks and balances must be in place for projects to be implemented within budgets and timeously.

The Budget Facility for Infrastructure monitors spending against the allocated amounts. In addition, the National Treasury uses the infrastructure reporting model, discussed in Annexure D, to monitor infrastructure budgets against spending and visits sites quarterly to check the implementation of projects.

The committee recommends that the Minister of Finance ensures that National Treasury introduce more transparent and credible processes be introduced in procurement to ensure the attainment of value for money.

The National Treasury notes the recommendation.

The committee recommends that the Minister of Finance ensures that National Treasury advertise all tenders at local community level after the contracts have been awarded inclusive of successful companies, names of directors, contract value and itemised billing.

The National Treasury has implemented an eTenders portal which advertises all public sector tender opportunities, tender awards and cancellations. The awarded bidder and director details, including the contract value, are published on the same platform.

Government and private companies should use infrastructure budgets to ensure localisation of goods and services and to create jobs for South Africans, especially young people.

The National Treasury notes the recommendation.

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

The committee recommends that the Minister of Finance should, within 60 days of the adoption of this Report by the House, approve a roll-over amount of R338.40 million for the Department of Home Affairs, earmarked for the Represented Political Parties Fund (RPPF) to assist political parties to prepare for the 2024 elections, and for records digitisation. This should be done in line with section 6.4 of the Treasury Regulations.

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 are included in the Adjustments Appropriation Bill. Requests that do not meet the criteria stipulated in this or other regulations are not recommended. A rollover amount of R338.5 million was included in the Adjustments Appropriation Bill (2023) in line with the regulations.

The committee recommends that the Minister of Finance should, within 60 days of the adoption of this Report by the House, approve a roll-over amount of R235.97 million for the Department of Basic Education for payments for capital assets in respect of the Accelerated School Infrastructure Delivery Initiative (ASIDI) and the Sanitation Appropriate for Education (SAFE) Initiative within the School Infrastructure Backlogs Grant (SIBG); workbooks; and a management fee paid to the implementing agent for the SIBG. This should be done in line with section 6.4 of the Treasury Regulations.

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 are included in the Adjustments Appropriation Bill. Requests that do not meet the criteria stipulated in this or other regulations are not recommended. A rollover amount of R236 million was included in the Adjustments Appropriation Bill (2023) in line with the regulations.

The committee recommends that the Minister of Finance should, within 60 days of the adoption of this Report by the House, approve a roll-over amount of R3.93 million for the Department of Employment and Labour for the refurbishment of its existing buildings. This should be done in line with section 6.4 of the Treasury Regulations.

In line with the regulations issued in terms of the Public Finance Management Act, a rollover amount of R3.9 million was included in the Adjustments Appropriation Bill (2023).

The committee recommends that the Minister of Finance should, within 60 days of the adoption of this Report by the House, approve all the virements and shifts as envisaged in section 5 of the Appropriation Act 2023, while Parliament approves all virements that exceeds 8 percent as per the requirements of section 43 of the Public Finance Management Act of 1999. These include funds which are appropriated for compensation of employees and payment for capital assets.

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

The National Treasury, together with the Department of International Relations and Cooperation should, within 60 days of the adoption of this Report by the House, develop measures to ensure that the additional amount of R1.74 billion, which is earmarked to address foreign exchange fluctuations is spent according to the approved plans; and the same applies to National Treasury, together with the South African Revenue Service (SARS), with respect to the additional amount of R1.0 billion allocated to SARS.

The National Treasury notes the committee's recommendation. The National Treasury provides quarterly expenditure reports to Parliament. Spending on earmarked funds is included in these reports to ensure that funds are spent according to the approved plans.

The National Treasury, together with the Department of Cooperative Governance and the South African Local Government Association (SALGA) should, within 90 days of the adoption of this Report by the House, develop clear mechanisms to ensure that the additional R1.55 billion earmarked for unforeseeable and unavoidable expenditure; for the Municipal Disaster Recovery Grant to reconstruct and rehabilitate municipal infrastructure damaged by floods in the Eastern Cape, KwaZulu-Natal, Mpumalanga, and Limpopo; and the R372 million to replenish the Municipal Disaster Response Grant is utilised strictly for its intended purpose. Parliament will monitor this.

Disaster relief funding flows through conditional grants and allocations are based on assessments of specific damage from disasters. 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.

The Department of Cooperative Governance, as the national transferring officer, is responsible for ensuring that funds are spent on their intended purpose.

Whilst the Committee supports some of the necessary budget cuts, given the current state of economic growth and increasing debt service costs, the National Treasury, together with the Department of Public Service and Administration and the Department of Planning, Monitoring and Evaluation should take further steps to ensure that social programmes are always safeguarded from such reductions, and proper measures are developed and implemented to stimulate economic growth.

The National Treasury notes the committee's recommendation. Serious fiscal constraints have made spending reductions to departments and entities unavoidable. Nevertheless, critical social spending has been prioritised for funding. Funding for the social wage makes up more than 60 per cent of the budget, and social grant transfers have not been reduced. In addition, the National Treasury has encouraged departments to protect frontline services. Chapter 5 sets out spending decisions over the next three years.

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

The Minister of Finance should gazette the allocations in the Division of Amendment Bill [B33 -2023] which proposes a total adjustment of R13.6 billion, from R2.03 trillion to R2.05 trillion, to fund the 2023/24 wage agreement, increases in debt-service costs and disaster response funding; including the changes proposed to the frameworks of the Expanded Public Works Programme (EPWP) Integrated Grant for Provinces, the Municipal Disaster Recovery Grant, and the Regional Bulk Infrastructure (indirect) Grant.

The allocations in the 2023 Division of Revenue Amendment Bill were gazetted on 22 December 2023.

The National Treasury, together with provincial treasuries, should within 60 days of the adoption of this Report by the House, ensure that all provinces develop proper mechanisms as required by section 38 of the Public Finance Management Act, to manage their provincial expenditures, including the additional R17.6 billion in the provincial equitable share, and ensure that funds are utilised for their intended purpose.

The National Treasury notes the Committee's recommendation. The mechanisms in terms of section 38 are a permanent feature of the intergovernmental fiscal system and should be on-going practice for accounting officers of provincial departments.

The Minister of Finance should approve the roll-over amount of R300 million for the Represented Political Party Fund (RPPF), in line with section 6.4 of the Treasury Regulations, as these funds are meant to assist political parties to prepare for the 2024 elections.

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 are included in the Adjustments Appropriation Bill. Requests that do not meet the criteria stipulated in this or other regulations are not recommended. In line with the regulations, a rollover amount of R300 million was included in the Adjustments Appropriation Bill (2023).

The National Treasury, together with provincial treasuries, should within 60 days of the adoption of this Report by the House, develop specific and adequate mechanisms to mitigate the service delivery impact of the provincial and local government conditional grant reductions from R131.6 billion to R125.2 billion for the 2023/24 financial year.

Sector departments played a pivotal role in ensuring that reductions were implemented in a way that minimised their impact on service delivery for both provinces and municipalities. Engagements were professional and efficient, including the necessary consultation and communication between relevant parties.

The National Treasury together with provincial treasuries and provincial departments of education and health should within 60 days of the adoption of this Report by the House develop measures to ensure that the wage agreement is effectively implemented, and funds are utilised for their intended purpose; furthermore, the Committee is of the view that consequence management should be urgently implemented for poor expenditure on critical programmes such as the Early Childhood Development (ECD) Programme, National Health Insurance (NHI), and many other critical programmes, instead of taking funds away.

The National Treasury notes the committee's recommendations. Provincial treasuries and the National Treasury will continue working collaboratively to ensure the credibility of compensation budgets. Funds allocated for the compensation of employees are budgeted as such by provincial legislatures, which exercise direct oversight over provincial departments. These budgets are also publicly available for scrutiny. Moreover, the National Treasury will continue working with provincial treasuries and the relevant national departments to improve the effectiveness of programmes in line with the provisions of the Division of Revenue Act.

The National Treasury, together with the Department of Cooperative Governance and its provincial counterparts, should within 60 days of the adoption of this Report by the House develop clear mechanisms and steps in line with the Constitution to ensure that political instability due to coalitions in municipalities does not affect administrative functioning, policy implementation and basic service delivery.

The National Treasury collaborates with the Department of Cooperative Governance regarding metro finances. The Department of Cooperative Governance has developed proposals to amend the Local Government: Municipal Structures Act (1998) to address the effect of coalitions on finances and these amendments will be supported with Regulations. The National Treasury will provide comments during the consultation process.

The National Treasury should within 60 days of the adoption of this Report by the House develop clear mechanisms to ensure that any movement of funds due to unforeseen and unavoidable circumstances does not affect the approved annual performance plans of key service delivery departments and ensure that this is done within the parameters of section 43 of the Public Finance Management Act.

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

Whilst the Committee welcomed the fact that the reorganisation of government is ongoing and that spending review recommendations form part of the process, the Committee recommends that the National Treasury should within 60 days of the adoption of this Report by the House develop clear timeframes to fast-track the implementation of zero-based budgeting as it was announced by the President previously.

The National Treasury notes the committee's recommendation. It should be noted that spending reviews were the basis for zero-based budgeting announced previously. The goal of the spending reviews was to improve efficiency, effectiveness and value for money in public spending. Some spending reviews have informed the reprioritisation of funds within and between institutions and decisions about the affordability of certain programmes in recent years. Working with the affected institutions, the National Treasury will ensure that the full implementation of the recommendations from the spending reviews is expedited over the 2024 MTEF period.

Whilst the Committee welcomed the extension of the Social Relief of Distress (SRD) Grant until 2024, the National Treasury, together with the Department of Social Development, should within 60 days of the adoption of this Report by the House develop clear measures and timeframes to conclude the review process of the entire social grant system as previously announced by the Minister of Finance.

The National Treasury as well as the World Bank have reviewed the social grant system. However, the Department of Social Development and the National Treasury have not yet reached agreement on the way forward. As previously noted, the fiscal framework makes provision for funding for the *COVID-19 social relief of distress grant* for 2024/25. Any extension of the grant, or any replacement thereof, needs to be funded by a new revenue source or reprioritisation of other spending items. Government is still discussing options for a replacement grant and the balance between policy options to support higher employment.

The National Treasury, together with the Department of Cooperative Governance and the South African Local Government Association (SALGA), should ensure that the Budget Forum is effectively utilised to reflect and address issues affecting local government during the budget process. National Treasury should always ensure that SALGA is adequately consulted on matters relating to local government. Moreover, clear measures should be put in place by both SALGA and National Treasury to ensure that the process is effective, and consultations are more meaningful. Parliament, legislatures, and municipal councils should continue to monitor progress in this regard.

SALGA is consulted through the Budget Forum for budget-related consultations. This is preceded by technical Budget Forum meetings where officials engage and provide feedback to the political heads ahead of Budget Forum meetings. The committee's chairperson is welcome to attend these meetings to continue to monitor progress in this regard.

The National Treasury, together with Department of Public Enterprise and the Minister for Electricity, should within 60 days of the adoption of this Report by the House ensure that a multi-pronged approach is developed to urgently address the crises at Eskom and Transnet, as these impact on other economic sectors like mining, manufacturing and agriculture, and to address the challenges *around the Passenger Rail Agency of South Africa (PRASA) as well as other infrastructure related programmes to stimulate economic growth and address poverty, inequality and unemployment.*

The National Treasury has provided support to Eskom through the Eskom Debt Relief Act (2023) and to Transnet through a R47 billion guarantee. The National Treasury is also a member of the National Logistics Crisis Committee and the National Energy Crisis Committee, which are overseeing interventions to address transportation and electricity challenges, respectively.

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 2023 MTBPS

The National Treasury, together with the Department of Public Service and Administration, the Department of Planning, Monitoring and Evaluation and the Presidency should, within 60 days of the adoption of this Report by the House, ensure that clear plans are developed to expedite the review and reconfiguration of the executive functions to address duplications and inefficiencies.

The National Treasury notes the recommendation. It will continue to engage with the Presidency and other relevant institutions to expedite the reconfiguration of the state.

The National Treasury and provincial treasuries should, within 90 days of the adoption of this Report by the House, take steps to ensure that the Provincial Equitable Share (PES) task team expedite the review of the education component, ensuring that proper consultation with relevant stakeholders is conducted.

The technical review of the education component has been completed and consultations are now in progress.

The National Treasury, together with provincial treasuries and provincial departments should, within 60 days of the adoption of this Report by the House, take steps to ensure that the wage agreement is effectively implemented by provincial departments of education and health, and funds are utilised for their intended purpose.

The National Treasury is responsible for allocating funds to provinces and provincial legislatures are responsible for deciding how these funds are used through the provincial budget process.

The National Treasury should, within 60 days of the adoption of this Report by the House, take steps to fast-track the process of developing compulsory national norms and standards to regulate municipal surcharges on electricity and to identify alternative sources of revenue.

The National Treasury welcomes this recommendation.

The National Treasury, together with the Department of Water and Sanitation should, within 60 days of the adoption of this Report by the House, take steps to finalise the proposed conditions to ensure that the Urban Settlements Development Grant, the Integrated Urban Development Grant, and the Municipal Infrastructure Grant (MIG) are aligned with the Green Drop, Blue Drop and No Drop assessment to improve water management and wastewater systems.

The National Treasury welcomes this recommendation. It and the Department of Water and Sanitation are engaging the Department of Human Settlements and the Department of Cooperative Governance, as the transferring departments of these grants, to finalise the proposed conditions. This will promote efficient water management systems and sustainable development.

The Committee once again recommends that National Treasury review the funding model of local government and calls for more meaningful commitments to increase the proportion of the nationally raised revenue allocated to local government. The Committee further calls upon all municipalities to use their funds more effectively and productively to ensure value for money.

The National Treasury agrees with the need to review the funding model for local government. Chapter 6 outlines the work under way on this matter, including reviewing the funding model for local government and improving the local government equitable share formula, over the MTEF period.

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