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REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE BILL [B5-2015], DATED 28 APRIL 2015

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B5 – 2015] (National Assembly-Section 76(1)), referred to it and classified by the JTM as a Section 76(1) bill, reports as follows:

1. Introduction and background

Section 10(1) of the Intergovernmental Fiscal Relations Act, 1997 (No. 97 of 1997), requires that each year when the annual budget is introduced, the Minister of Finance (the Minister) must introduce in the National Assembly a Division of Revenue Bill (the Bill) for the financial year to which that budget relates. The purpose of the Bill is to provide for–

(a) the share of each sphere of government of the revenue raised nationally for the relevant financial year;

(b) each province's share of the provincial share of that revenue; and

(c) any other allocations to the provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations are or must be made.

According to Section 7(1) of the Money Bills Amendment Procedure and Related Matters Act, 2009 (No. 9 of 2009) (the Money Bills Act), the Minister must table the annual national budget in the National Assembly as set out in Section 27 of the Public Finance Management Act, (No. 1 of 1999) at the same time as the Appropriation Bill. Furthermore, Section 7(3) requires that the Bill must be introduced at the same time as the Appropriation Bill.

In terms of Section 4(4) of the Money Bills Act, a committee on appropriations has the power and functions conferred to it by the Constitution, legislation, the standing rules or a resolution of a House, including considering and reporting on -

- spending issues;
- amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriation Bills and the Adjustments Appropriation Bill;
- recommendations of the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (No. 97 of 1997);

- reports on actual expenditure published by the National Treasury; and
- any other related matter set out in the Money Bills Act.

According to section 7(3) of the Money Bills Act and section 76(4) of the Constitution, the Bill must be tabled in the National Assembly and thereafter it must be dealt with in accordance with the procedure established by Section 76(1) of the Constitution. In accordance with these sections, the Minister, Mr N M Nene, tabled the Bill in the National Assembly on 25 February 2015. On 13 March 2015 the Bill was transmitted to the National Council of Provinces and referred to the Committee in accordance with Section 76 of the Constitution.

Section 9(1) of the Intergovernmental Fiscal Relations Act requires the Financial and Fiscal Commission (FFC) to submit recommendations to the Minister on the division of revenue for the coming budget 10 months before the start of the financial year. This Act further requires the Minister to include a memorandum within the Bill indicating the extent to which the recommendations of the FFC were taken into consideration by the Minister.

Furthermore, Section 7(4) of the Money Bills Act prescribes that the Minister must submit a report to Parliament at the time of the budget explaining how the Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in the following reports:

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

Section 9 of the Money Bills Act provides for the following procedure for the adoption of the Bill:

1) After the adoption of the fiscal framework, the Bill must be referred to the committee on appropriations of the National Assembly for consideration and report.

2) After the Bill is referred to the National Council of Provinces, the Bill must be referred to the committee on appropriations of the Council for consideration and report.
3) The Bill must be passed no later than 35 days after the adoption of the fiscal framework by Parliament.

Following a briefing by National Treasury on the Bill, the Committee consulted the Financial and Fiscal Commission, the South African Local Government Association (SALGA), and all nine provinces. The Committee further scheduled public hearings for 14 April 2015 in line with section 9(5)(b) of the Money Bills Act. Advertisements were placed nationally in all 11 official languages and on South African Broadcasting Corporation radio stations (national, regional and community radio stations), calling for submissions from interested parties and stakeholders. The Committee received and considered seven written submissions, from the FFC, SALGA, Afriforum, Equal Education and three individuals (Mr David Mokome, Miss Laurika Nxumalo and V Ka Mjoli on behalf of educators of Nomkholokotho Junior Secondary School).

2. The 2015 Division of Revenue Bill allocations over the Medium Term Expenditure Framework

The 2015 State of the Nation Address (SONA) by His Excellency President J G Zuma outlined South Africa's programme of action which serves as the basis for the 2015 Budget tabled by the Minister. The 2015 SONA followed on the 2013 SONA by retaining the nine key government priorities with emphasis placed on resolving the energy challenge; revitalising agriculture and agro-processing; adding more value to our mineral wealth; enhancing the Industrial Policy Action Plan; encouraging private investment; reducing workplace conflict; unlocking the potential of small enterprises; infrastructure investment; and Operation Phakisa, aimed at the ocean economy and other sectors.

Accordingly, on 25 February 2015, the Minister tabled the 2015 National Budget together with the Bill as required by the above-mentioned legislative frameworks. The Bill classifies schedules from Schedule 1 to 7 in order to divide revenue among the three spheres of government. Table 1 below shows the equitable division of nationally raised revenue among these three spheres of government.

The Constitution sets out specific criteria for the sharing of nationally raised revenue among the national, provincial and local spheres of government. The Bill was presented within sound fiscal policy decisions guided by the principles of counter-cyclicality, debt sustainability and intergenerational fairness.

Table 1: Equitable Division of Nationally Raised Revenue among the National, Provincial and Local Spheres of Government

Spheres of Government	Column A	Column B	
		Forward Estimates	
	2015/16 Allocation	2016/17	2017/18
	(R'000)	(R'000)	(R'000)
National	789 463 526	851 811 074	936 457 697
Provincial	382 673 477	405 264 594	428 892 540
Local	50 207 698	52 868 706	55 512 141
TOTAL	**1 222 344 701**	**1 309 944 374**	**1 420 862 378**

According to the Bill, the main budget expenditure has increased from R1.1 trillion for the 2014/15 financial year to R1.2 trillion for the 2015/16 financial year. This marks an increase of R87.2 billion or 7.7 per cent from the 2014/15 financial year. The above table shows that the allocation for government expenditure over the 2015 MTEF between the three spheres of government amounted to R1.2 trillion in the 2015/16 financial year; R1.3 trillion in the 2016/17 financial year; and 1.4 trillion in the 2017/18 financial year. The national share included conditional grant allocations to provincial and local spheres of government, general fuel levy sharing with metropolitan municipalities, debt-service costs, and the contingency reserve. The Bill states that the provincial and local equitable share formulas were designed to ensure fair, stable and predictable revenue shares, and to address economic and fiscal disparities.

2.1 Provincial allocations

The table below shows the total allocation of the provincial equitable share (PES), conditional grants to provinces in the 2015/16 financial year, and the estimated PES allocations in the outer years.

Table 2 Provincial equitable share, conditional grants, forward estimates

Province	Column A	Column B	Column C	
	Provincial equitable share allocations	Conditional grant allocations	Forward Provincial Equitable Share Estimates	
	2015/16 (R'000)	2015/16 (R'000)	2016/17 (R'000)	2017/18 (R'000)
Eastern Cape	54 311 819	10 060 000	57 367 961	60 069 069
Free State	21 757 298	6 609 000	22 775 186	23 979 176
Gauteng	73 413 414	17 123 000	78 236 773	83 601 741
KwaZulu-Natal	82 253 946	16 881 000	86 885 446	91 429 978
Limpopo	45 377 444	6 742 000	48 120 920	50 502 078
Mpumalanga	31 029 509	6 851 000	32 970 925	35 113 208
Northern Cape	10 137 746	3 665 000	10 730 339	11 396 762
North West	26 150 635	6 942 000	27 675 998	29 492 553
Western Cape	38 241 666	10 507 00	40 501 046	43 307 975
Unallocated	-	**103 000**	-	-
TOTAL	**382 673 477**	**85 483 000**	**405 264 594**	**428 892 540**

Columns A and C of the above table show the equitable share allocations of R382 billion, R405 billion and R428 billion respectively for each year of the MTEF. Column B indicates conditional grant funds totalling R85 billion allocated to provinces for the 2015/16 financial year. Also included in column B are unallocated funds of R103 million (for the Provincial Disaster Grant).

Notwithstanding the baseline reductions, overall growth in direct conditional transfers to provinces averages 6.9 per cent over the 2015 MTEF period. For this period, an amount of R149 million has been reprioritised away from the Provincial Roads Maintenance Grant to the South African National Roads Agency Limited (SANRAL) for the urgent improvement of the Moloto Road (R573) infrastructure project. The Moloto Road will form part of SANRAL's non-toll road portfolios.

2.2 Local government allocations

Table 3: Transfers to local government

R million	2014/15 revised estimates	Medium Term Estimates		
		2015/16	2016/17	2017/18
Equitable share and related	43 290	50 208	52 869	55 512
General fuel levy	10 190	10 659	11 224	11 785
Conditional grants	35 595	38 887	39 844	42 720
Indirect transfers (infrastructure)	8 536	10 395	10 634	10 916
Total	**97 611**	**110 149**	**114 571**	**120 933**

Table 3 above shows that for the 2015/16 financial year, total transfers to the local sphere of government increased by 12.8 per cent in nominal terms while equitable share and related transfers increased by 16 per cent in nominal terms. On the other hand, direct conditional transfers for infrastructure increased by 9.2 per cent in nominal terms while indirect conditional grant transfers for infrastructure increased by 21 per cent in nominal terms.

3. Inputs by stakeholders

The submissions from the stakeholders were made, among others, on issues such as allocations, expenditure monitoring, withholding of funds and conditional grants.

3.1 Budget and expenditure monitoring

Mr David Mokone raised a concern with rollovers and called for transferring officers to monitor the spending of the approved rollovers. Mis Laurika Nxumalo raised a concern with the perceived bail-outs to certain state-owned enterprises and called for a more collaborative approach that would strengthen such entities.

Equal Education was concerned that planned provincial budgets and targets were not sufficient to address the needs for scholar transport and projected that over the MTEF period thousands of learners were likely to miss education opportunities due to the lack of scholar transport. Equal Education was further concerned by the delay by both the national Department of Transport and the Department of Basic Education to finalise the national policy on scholar transport.

3.2 Withholding of funds

SALGA was concerned with the National Treasury's decision to withhold equitable share allocations to some municipalities for owing ESKOM and some Water Boards. Although SALGA acknowledged municipal debts, they were concerned that withholding equitable share allocations had the potential to compromise municipal functions and service delivery.

3.3 Conditional grants

The FFC welcomed the fact that R3.3 billion has been ring-fenced within the Human Settlement Development Grant (HSDG) to continue with the upgrading of human settlements in mining towns. The Commission however recommended that the rental option also be considered for these areas. On the other hand, SALGA was concerned about the unresolved issues of the HSDG and would continue engaging on this matter with both National Treasury and the Department of Human Settlements.

The FFC noted that a total of five health conditional grants were revised down by over R770 million due to reprioritisation and under-spending over the MTEF. The Commission recommended that future reprioritisations of this nature be preceded by a thorough expenditure review to determine the extent to which the objectives of the grant are affected.

3.4 Allocations

The FFC welcomed the positive real growth of the local government equitable share (LES) over the MTEF by about 5.6 per cent, and also the cushioning of infrastructure grants from cuts as well as the significant growth in water, sanitation and electricity grants in line with the 'Back to Basics' plan.

While SALGA appreciated the regular review of the LES formula, they submitted that the allocations are not in line with the current energy, water, sanitation and refuse cost increases.

Afriforum was concerned that, while the LES formula factors in, among other things, the level of poverty in municipalities, some municipalities have very low numbers of registered indigents, creating the impression that the rest are able to pay. The end result is a high debt level by households in such municipalities. Afriforum was also concerned that the funds earmarked for unregistered indigents might be used for other purposes by the affected municipalities.

While SALGA welcomed the allocation of R139 million for the Demarcation Transitional Grant (DTG) to support municipalities affected by demarcations, they submitted that this was insufficient.

Miss Laurika Nxumalo felt that child support grants had the potential to compromise family planning programmes and called for stricter foster care measures for recipients of such grants. Equal Education was concerned that while the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) and the Education Infrastructure Grant (EIG) were meant to supplement provincial allocations for school infrastructure, provinces seemed to allocate insufficient funds from their provincial equitable shares for school infrastructure and rely on these grants as the main sources of funding for infrastructure.

3.5 Planning

The FFC welcomed the institutionalisation of the Built Environment Performance Plans (BEPPs) as a tool to foster spatial planning and development within metros. The Commission further recommend that the BEPP requirements should be extended to other municipalities and other spheres of government.

4. Observations

4.1 Previous Committee recommendations

The Committee noted with appreciation the Minister's positive response to the its recommendations for the funding of the Moloto Road, the Matlosana Local Municipality disaster allocations and the introduction of the conditional grant for municipalities affected by demarcations. The Committee further noted that the allocation of R139 million as a Demarcation Transition Grant is a step in the right direction. The Committee will on an ongoing basis, and in collaboration with other parliamentary committees and oversight structures, monitor the commitment made by the Minister on other Committee recommendations.

4.2 Provincial allocations (provincial equitable share and conditional grants)

4.2.1 Provincial equitable share

The provincial baseline reductions by R4.4 billion is distributed as follows – R2.6 billion is from the equitable share and R1.8 billion from the under-performing conditional grants. Further revisions due to function shifts in health and higher education and the change in the National Health Laboratory Service (NHLS) funding arrangements led to a reduction in the provincial equitable share by R5.3 billion in 2015/16, R6.8 billion in 2016/17 and R3 billion in 2017/18.

4.2.2 Provincial conditional transfers

Despite the baseline reductions described in conditional grant transfers to provinces, overall growth in direct conditional transfers to provinces is averaging 6.9 per cent over the MTEF period where direct conditional grant baselines total R85.5 billion in 2015/16, R91 billion in 2016/17 and R97.5 billion in 2017/18.

4.2.3 Human Settlements Development Grant (HSDG).

There is an urgent need to address the unresolved issue on the Human Settlements Development Grant.

4.3 Local government allocations (LES and conditional grants)

The Bill provides for real growth in the LES over the MTEF by about 5.6 per cent, the cushioning of infrastructure grants from cuts as well as the significant growth in allocations for water, sanitation and electricity grants.

4.3.1 Incidences of unfunded mandates within municipalities

SALGA raised a concern that certain municipal functions are not well funded due to the fact that the revenue generation capacity in most municipalities are not commensurate with the functions they are required to perform.

4.4 Funding of government priorities

The 2015 Budget shows the government's commitment to investment spending whereby the capital spending over the MTEF for national, provincial and local governments have been allocated R362.4 billion for infrastructure spending.

4.5 Withholding of the equitable share to certain municipalities

Although the withholding of allocations to organs of state is legislatively mandated under certain circumstances, such a move, especially the current withholding of equitable shares to municipalities for owing ESKOM and some Water Boards, has the potential to compromise service delivery and even defeat the purpose it is intended to achieve.

4.6 Scholar transport funding model and policy

There is an urgent need to finalise the national policy on scholar transport so that an appropriate funding model for scholar transport can be developed.

4.7 Municipal debts

The Committee noted with concern that as on 31 December 2014, municipal debts to Water Boards reportedly amounted to R2.3 billion, and municipal debts to ESKOM, to R4.6 billion. At the same time about 73 per cent owed to municipalities was household debt, 23 per cent business debt and 4 per cent government debt of which R522 million was owed by national departments and R2.07 billion by provincial departments.

5. Provincial Mandates

In compliance with Section 7(b) of the Mandating Procedure of Provinces Act (Act 52 of 2008), provinces were required to submit negotiating and final mandates. The provinces submitted mandates as follows:

5.1. Negotiating Mandates

5.1.1 Eastern Cape supported the Bill and made recommendations.

5.1.2 Free State was in favour of the Bill and made recommendations.

5.1.3 Gauteng was in favour of the Bill.

5.1.4 KwaZulu-Natal supported the Bill.

5.1.5 Limpopo supported the Bill and made recommendations.

6.1.6 Mpumalanga was in favour of the Bill and made recommendations.

7.1.7 Northern Cape supported the Bill.

8.1.8 North West supported the Bill and made a recommendation.

9.1.9 Western Cape voted in favour of the Bill.

5.2 Final Mandates

5.2.1 Eastern Cape

5.2.2 Free State voted in favour of the Bill.

5.2.3 Gauteng

5.2.4 KwaZulu-Natal supported the Bill.

5.2.5 Limpopo voted in favour of the Bill.

5.2.6 Mpumalanga voted in favour of the Bill.

5.2.7 Northern Cape voted in favour of the Bill.

5.2.8 North West

5.2.9 Western Cape supported the Bill.

6. Recommendations

6.1 Division of nationally raised revenue among the various spheres of government

6.1.1 In view of the fact that the current fiscal framework is quite limited and requires innovative approaches in responding to the needs of the people, there is a need to clearly align budgets to the core priorities as outlined by the National Development Plan; the 2014-2019 Medium Term Strategic Framework, the Provincial Growth and Development Strategies and municipal integrated development plans. The National Treasury should exercise its Constitutional mandate to ensure that the budgets of the various spheres of government are in compliance with the above-mentioned plans.

6.1.2 While the Committee noted and appreciated the ongoing discussions between National Treasury and the South African Local Government Association on issues of unfunded mandates within municipalities, the Committee recommends that the Financial and Fiscal Commission should also be involved in such discussions.

6.2 Reduction in certain provincial conditional grants

6.2.1 To mitigate the impact of baseline reduction on certain conditional grants the National Treasury and other sector departments administering such funds should introduce innovative measures that will ensure efficient, effective and economical spending of such grants.

6.2.2 Within ninety days after adoption of this report by the House, the National Treasury should facilitate a process whereby stakeholders can interact in order to resolve the outstanding issues relating to both the Human Settlements Development Grant and the Municipal Settlements Capacity Grant. Such stakeholders might include National Treasury, the South African Local Government Association, the Department of Human Settlements the Financial and Fiscal Commission.

6.3 Withholding of funds

Within thirty days after adoption of this report by the House, the National Treasury should brief Parliament about the situation with regard to the municipalities whose equitable share have been stopped.

6.4 Scholar transport

Within thirty days after adoption of this report by the House, both the National Department of Transport and the Department of Basic Education should brief Parliament on the latest developments regarding finalisation of the scholar transport policy.

6.5 Municipal debt

Within thirty days after adoption of this report by the House, National Treasury should facilitate discussion among the relevant stakeholders to look into the issue of municipal debts. Such stakeholders should include, but may not be limited to, the National Treasury, the South African Local Government Association, the Financial and Fiscal Commission and the Department of Cooperative Governance and Traditional Affairs.

7. Conclusion

Having considered the *Division of Revenue Bill* [B5 - 2015] and submissions made by stakeholders and provinces, the Committee recommends the adoption of the *Division of Revenue Bill* [B5 - 2015] without amendments.

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Mr S J Mohai, MP **Date**

Chairperson: Select Committee on Appropriations