**2016 DIVISION OF REVENUE BILL**

**Issues raised in the negotiating mandates submitted by Provincial Legislatures on the 2016 Division of Revenue Bill**

***Background***

The Select Committee on Appropriations met in George on 20 April 2016 to consider the negotiating mandates on the 2016 Division of Revenue Bill that were submitted by provincial legislatures. Representatives of National Treasury attended the meeting and gave verbal comments on some of the recommendations made and also undertook to provide brief written replies on the recommendations raised by provincial legislatures in their negotiating mandates. These written comments are provided below.

***Free State***

*The Portfolio Committee requests that the current Equitable Share formula be reviewed as it is not biased towards rural and poor municipalities.*

The local government equitable share formula was reviewed in 2012 and a new formula is being phased-in over a five year period from 2013/14 to 2017/18. The formula was reviewed through a consultative process that included engagements and consultations with municipalities and was led by National Treasury, Department of Cooperative Governance, Financial and Fiscal Commission and the South African Local Government Association. The objectives of this formula, which were agreed to through the review, are to fund the provision of free basic services for all poor households and to enable municipalities with limited ability to raise own revenue to fulfil their basic functions. As a result, the new formula is substantially more redistributive than the previous local government equitable share formula. In 2016/17, R10.2 billion is allocated through the formula for institutional costs and community services that is allocated only to municipalities with limited ability to raise own revenue. As a result, the new formula allocates more per capita to poorer and more rural municipalities.

*In terms of Section 214(2) of the Constitution all inputs received from provincial governments, organised local government and Financial and Fiscal Commission should be considered before the Bill is tabled in the National Assembly.*

National Treasury takes into account all submissions made by provinces, organised local government and the Financial and Fiscal Commission in the compilation of the Division of Revenue Bill. A summary of the consultation process followed in compiling the 2016 Division of Revenue Bill is set out on page 63 of the Bill (in the Explanatory Memorandum on the Division of Revenue).

*The basic service component as contained in the provincial equitable share formula should be reviewed in order to consider the burden of additional basic services that Free State Province renders and, in addition, the entire provincial equitable share formula should be reviewed in order to address the province specific funding needs as a result of its transit status.*

Allocations to all provinces and municipalities are based on the functions assigned to them in terms of the Constitution and national legislation. If a province or municipality performs additional responsibilities on behalf of another sphere then they should agree with the relevant department in that sphere on how the function will be funded.

National Treasury is reviewing the Provincial Equitable Share formula. This review, which could result in changes to the formula, is being conducted in a number of phases, with findings to be implemented in successive budgets if the changes are approved by the Budget Council. Phase one seeks to assess the available datasets that currently inform the formula. It will then compare this to alternative data sources, should they exist, for provinces. The following phases, based on recommendation from Budget Council, will then look at assessing alternative methods for budgetary allocation as well as interrogate the components of the actual formula. All components of the formula will be assessed in order to strike a balance between the varying costs of delivery across provinces, as well as the cost burden of delivery based on the share of population served.

***Gauteng***

*That despite reductions to the baseline, existing budgets needs to be reprioritised to meet government’s policy; priorities outlined in the Medium term Strategic Framework.*

National Treasury agrees on the need to reprioritise within available budgets to ensure that government’s policy priorities are implemented.

*In view of the cost of services growing faster than the government transfers, provincial and local governments needs to strengthen efforts to work more efficiently, reduce non-core expenditure and increase funding from own revenue.*

National Treasury agrees on the need for provinces and municipalities to undertake this reprioritisation, and this is what benchmarking processes, for both local and provincial spheres, aims to achieve. The process seeks to ensure that efforts are strengthened by assessing the credibility of budgets, before budgets are tabled, to ensure efforts are appropriately directed. In addition National Treasury will be able to provide advice on how to improve efficiency to any province or municipality that requests it.

*In light of the reduction in the Comprehensive Agriculture Support Programme Grant, which is going down by R210 million over the MTEF, the province should ensure there is sufficient funding from within its own programmes to mitigate the effects of the possibility of a long term drought and its impact on agriculture in Gauteng.*

National Treasury supports this recommendation. The province has added R104 million to the Gauteng Department of Agriculture and Rural Development’s Equitable Share during the 2015/16 Adjustment budget to provide for, amongst others things, drought relief to farmers. The department utilises the equitable share to procure livestock feeds as part of the drought relief programme and will continue with this intervention in 2016/17.

*Gauteng’s equitable share reaffirms the fact that it remains the most populous province over the 2016 MTEF and therefore the need for its allocation to be commensurate with the population.*

The Provincial Equitable Share formula is largely population driven, through the largest components which are based on the number of people to whom provinces provide services. For example, the education component considers the actual number of students enrolled in schools. The health component reflects the average number of visits to primary health care facilities along with the hospital workload patient-day equivalents and also looks at the share of population within a province requiring public health care services. The basic component, accounting for 16 per cent of the Provincial Equitable Share formula, is exclusively population driven. All these mentioned components are updated yearly, including mid-year population which informs the poverty component of the formula.

The components for health and education reflect the realities on the ground, and as part the full Provincial Equitable Share formula review, the accuracy of these data sets will be assessed.

***Limpopo***

*Strategic deployment will serve as a better way to resolve capacity challenges at municipalities.*

This recommendation is noted and the deployment of skilled and experienced staff to assist vulnerable municipalities is supported. The deployment of skilled personnel to municipalities is one of the key components of the capacity building support provided through the Municipal Infrastructure Support Agent and through the Municipal Finance Improvement Programme. The Infrastructure Skills Development Grant, which seeks to create a long term and sustainable pool of registered professionals with build environment and related technical skills, is now beginning to yield fruit as the programme is now able to deploy trained graduates to municipalities.

*Collaborative effort among national, provincial and local spheres of government should be made especially on delivery of essential services to communities.*

National Treasury supports the call for increased collaboration between spheres in dealing with basic services challenges and will continue to strengthen our intergovernmental engagements through various intergovernmental forums including the Budget Council, Budget Forum, Technical Committee on Finance, Quarterly MFMA meetings and budget benchmarking engagements.

*Proper planning and capacity to spend on conditional grants must be encouraged across all receiving departments. Parliament and Provincial Legislatures should therefore ensure that expenditure on conditional grants is closely monitored on a continuous basis.*

National Treasury appreciates and supports this call for enhanced oversight of grant spending.

*National Departments and Provincial Treasuries should continuously empower provincial departments and municipalities to prudently spend on their allocations.*

National Treasury agrees on the importance of continued efforts to build the capacity of provincial departments and municipalities. National Treasury continues to build the capacity of provincial departments through the Infrastructure Delivery Improvement Programme and to build capacity in municipalities through the Municipal Finance Improvement Programme, Infrastructure Skills Development Grant, and the Financial Management Grant, among other initiatives.

***Mpumalanga***

*Future allocations of the equitable share to Mpumalanga province need to consider the daily migration of the bordering countries’ citizens that normally utilise the province’s health, education and social development services; in addition to the official data provided by the Statistics SA.*

At present the formula considers, and makes provision for, cross border migration demand for services. Be it across the national boarder, Mozambique to Mpumalanga, or provincial borders, Limpopo to Gauteng, cross border migration for services is a reality in the system. To this end, the largest components of the formula, health and education, aim to compensate for actual demand for services in spite of official population count. For the education component, cross border migration is captured by using the number of pupils actually enrolled at schools. For the health component, cross border migration is captured in the average number of visits to primary health care facilities along with the hospital workload patient-day equivalents data.

These subcomponents of the health and education components reflect the realities on the ground, and as part the full Provincial Equitable Share formula review, the accuracy of these data sets will be assessed.

***Northern Cape***

*Money intended for libraries in small and poor municipalities are always disbursed late towards the end of the financial year.*

The Division of Revenue Bill funds improvements in library services through the Community Library Services Grant to provinces. National Treasury agrees that where a province transfers funds to a municipality to implement projects on its behalf the funds should be transferred with sufficient time for municipalities to complete projects within the financial year. To support this, the framework for the Community Library Services Grant requires that a Service Level Agreement between the province and municipality must be signed within two months of the Division of Revenue Act taking effect.

***North West***

*National Treasury should consider looking into geometric studies with particular reference to Local Government in rural provinces, and ensure that infrastructure projects utilise their budgets accordingly.*

The South African Local Government Association and the Financial and Fiscal Commission have undertaken a study of the infrastructure and operating costs of delivering local government services in different municipalities. This study includes an examination of how a variety of geographic factors including terrain and proximity to urban centers affects these costs. Once this study is completed, National Treasury will review it and use its analysis to inform deliberations as part of the 2017 budget process.

*The R300 million Sports Infrastructure Grant that has been ring-fenced within the MIG for sport infrastructure projects, must be legislated because there are many municipalities within the province. State should take responsibility for the funds allocated for this grant.*

The R300 million that has been ring-fenced for particular sport infrastructure projects has been allocated to specific projects identified by the Department of Cooperative Governance. The list of these projects is published on pages 265 and 266 of the 2016 Division of Revenue Bill. Once the Bill has been enacted, these allocations will be gazetted by the Minister of Finance in terms of Section 16 of the Act. The framework for the Municipal Infrastructure Grant, which will also be gazette requires that municipalities that receive these ring-fenced funds may only use them for the identified projects. In this way the ring-fencing is given legal force through the Government Gazette.

*National Treasury develop measures to ensure that the infrastructure grants of Human Settlements are streamlined together with Local Government in the budgeting processes, so the infrastructure projects are fast tracked.*

National Treasury will engage with the Department of Human Settlements as part of the 2017 budget process on how alignment between Human Settlements Development Grant projects and the rollout of municipal infrastructure can be improved.

*The Bucket Eradication Programmed Grant that has been allocated R350 million in formal residential areas be supplemented to include the upgrades in informal settlements as well.*

The upgrading of sanitation services in informal settlements is funded as part of the broader programme of upgrading informal settlements. The funding is structured in this way so that a package of basic services (including sanitation, water, refuse removal, electricity and roads) can be built and upgraded in a coherent and integrated manner in informal settlements. The Bucket Eradication Programme Grant was created as a standalone grant to fund bucket eradication in formal areas because other basic services have already been provided in these areas and improved sanitation has to be retrofitted into these areas. The upgrading of informal settlements is funded through the Urban Settlements Development Grant (which includes a condition that half of its R10.8 billion allocation in 2016/17 must be used for informal settlement upgrading), the Municipal Infrastructure Grant (allocated R14.9 billion in 2016/17) and the Human Settlements Development Grant (allocated R18.3 billion in 2016/17).

*The budget for capacity building should be reviewed, in view of the fact that new Councillors shall be elected after the local government elections.*

National Treasury, the Department of Cooperative Governance and the South African Local Government Association (SALGA) are working together to prepare for the training of new councilors. National Treasury is preparing extensive documentation to inform the content of the councilor training programme. The delivery of training sessions after the local government elections will be led by SALGA.

***Western Cape***

*National Treasury to utilise updated South African Statistics in the review of the Equitable Share to Provinces.*

The Provincial Equitable Share formula is updated every year using the most recently available data from Statistics South Africa. This practice will also be employed in the review of the Equitable Share to provinces.