1. **REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2017 DIVISION OF REVENUE AMENDMENT BILL [B24 – 2017], DATED 13 NOVEMBER 2017**

The Standing Committee on Appropriations having considered the 2017 Division of Revenue Amendment Bill [B24 - 2017] (National Assembly – section 76 (the Bill), reports as follows:

1. **Introduction**

The Division of Revenue Amendment Bill (henceforth referred to as the Bill) was tabled in Parliament on 25 October 2017 by the Minister of Finance during the presentation of the 2017 Medium Term Budget Policy Statement (MTBPS). The Bill was referred to the Committee on 8 November 2017 and the Committee received a briefing thereon from the National Treasury. To facilitate public participation, the Committee published adverts in print media in all 11 official languages from 27 October 2017 to 3 November 2017 and one submission was received from the Rural Health Advocacy Project (RHAP). Subsequent to an oral presentation by RHAP, the Committee was of the view that the input submitted concerns the Division of Revenue in the 2018 Medium Term Expenditure Framework (MTEF) and not specifically the 2017 Division of Revenue Amendment Bill. To this end, the RHAP input will be incorporated in the Committee’s Report on the 2017 Medium Term Budget Policy Statement (MTBPS).

The South African Local Government Association (SALGA) and the Department of Cooperative Governance (DCOG) were invited to provide inputs on the Bill however SALGA’s input concerned the division of the revenue in the 2018 MTEF and will also be included in the Committee’s Report on the 2017 MTBPS. DCOG provided inputs with specific reference to the overall performance of municipalities and intergovernmental and coordination strategies between the three spheres of government. The Committee also received comments from the Financial and Fiscal Commission (FFC).

The Bill and its annexures address the following matters:

* Changes in the equitable division of nationally raised revenue among the spheres of government;
* Adjustments to Provincial Allocations;
* Adjustments to Local Government Allocations; and
* Changes to Conditional Grant frameworks.

This report focuses on amendments proposed in the Bill tabled by the Minister, matters raised during the briefing by National Treasury as well as the Department of Cooperative Governance and the input given by the Financial and Fiscal Commission (FFC).

1. **Equitable division of revenue raised nationally among the spheres of government**

Table 1 hereunder outlines the equitable division of revenue raised nationally among the three spheres of government.

**Table 1:** Schedule 1

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Column A** | | |
| **Sphere of government** | **2017/18 Main Budget** | **Adjustment** | **2017/18 Adjusted Budget** |
| **National** | R910 872 117 | R8 385 066 | R919 257 183 |
| **Provincial** | R441 331 122 |  | R441 331 122 |
| **Local** | R57 012 141 |  | R57 012 141 |
| **Total** | **R1 409 215 380** | **R8 385 066** | **R1 417 600 446** |

*Source: National Treasury (2017)*

The net effect of the 2017 adjustments is a budget adjustment on the 2017/18 main allocation from R 1.409 trillion to R1.418 trillion. The national allocation has been adjusted upwards by R8.385 billion from R910.872 billion to R919.257 billion.

1. **Adjustments to provincial allocations**

The following lists adjustments with regards to provincial conditional grants:

* An amount of R19.8 million will be added to *Comprehensive HIV, AIDS and TB grant* for Limpopo and Mpumalanga in order to support the national response programme and arrest the recent malaria outbreak. Monthly malaria cases have substantially increased and the intervention will see an intensification of support for provincial prevention efforts
* An amount of R30 million of the *Health Facility Revitalisation Grant* will be converted from Schedule 6, Part A (indirect) to Schedule 5, Part A (direct) for North West. This is meant to relieve pressure on health infrastructure projects that, though previously funded through the indirect grant, are now being implemented by the North West provincial Department of Health.
* An amount of R415 million in unspent funds has been declared as savings on the (indirect) *School Infrastructure Backlogs Grant* due to the poor spending performance as a result of delays in appointing contractors, finalising the merger and rationalisation of schools in the Eastern Cape and in reappointing contractors where the services of nonperforming contractors were terminated.

1. **Adjustments to the local government equitable share and conditional grants**

The following section lists adjustments with regards to provincial conditional grants:

* An amount of R27.9 million will be rolled-over for the *Municipal Demarcation Transition Grant* for funds originally allocated to municipalities in KwaZulu-Natal in 2015/16. The funds were rolled-over in 2016/17 as an indirect grant but went unspent and in 2017/18 they will now be rolled-over as a direct grant.
* An amount of R26.1 million has been allocated through the *Municipal Disaster Recovery Grant* for the repair of sinkholes and the damage to infrastructure resulting from sinkholes in the Merafong City Local Municipality.
* An amount of R200 million has been added to the indirect *Regional Bulk Infrastructure Grant* for Butterworth’s emergency water supply scheme to respond to drought pressures.
* An amount of R265 million will be added to the bucket eradication programme to allow the Department of Water and Sanitation to continue bucket eradication projects that the department had already identified and committed to implementing. This increase is funded through the reprioritisation of funds within the department from compensation of employees (R45.1 million), payments of capital assets (R214.5 million) and goods and services meant to support *Indirect Water Services Infrastructure Grant* (R5.4 million).

1. **Changes to conditional grant frameworks**

Together with the tabling of the Bill, National Treasury also submitted to Parliament proposed changes to gazetted conditional grant frameworks and allocations. Section 16(4) of the Division of Revenue Act, 2017, requires National Treasury to consult Parliament on any proposed changes to conditional grant framework for the purpose of correcting an error or omission, as envisaged in Section 16(2) of the Division of Revenue Act, 2017. The following corrections to conditional grant frameworks were submitted by the Minister of Finance together with the Bill:

* ***Comprehensive HIV, AIDS and TB Grant:***Amended to include a window for the funding of the malaria outbreak relief interventions.
* ***Health Professions Training and Development Grant & National Tertiary Services Grant:***Due date for submission of the list of specialists paid from the provincial equitable share and these grants, is corrected to 30 November 2017.
* ***National Health Insurance Indirect Grant:******Health Professionals Contracting Component:***Duplication of a requirement for the national Department of Health and National Treasury to discuss funding for a review is removed.
* ***National Health Insurance Indirect Grant****:* ***Ideal Clinics Component:***Output for the number of facilities to be peer‑reviewed is amended from 1 700 to 500 clinics. This was the cumulative target for the 2017 Medium Term Expenditure Framework, not the single year target for 2017/18.
* ***National Health Insurance Grant: Health Professionals Contracting Component:***Remove an infrastructure reporting responsibility that had erroneously been included in this component. Allocations must also be aligned to the revised allocations per component.
* ***Substance Abuse Treatment Grant:***Due date for the submission of business plans is corrected to 1 March 2017.

1. **Submission by National Treasury**

National Treasury in its submission highlighted challenges pertaining to the current financial performance of municipalities and interventions in place which include: enhancing municipal revenue, reducing debts and ensuring transfers to local government are effective.

National Treasury indicated that municipal debt is increasing and aggravated by the culture of non-payment for municipal services. Municipalities are owed around R128.4 billion which is greater than the total local government grant allocation of R111 billion. Moreover, municipalities owe creditors around R43 billion and this threatens the livelihood of these suppliers. Some of the key findings from the analysis by National Treasury include the following:

* + Where municipal leadership is weak, ineffective councils and governance structures have negative consequences;
  + Accountability is weaker at municipalities which have acting municipal managers;
  + Absence of or weak service level agreements where municipalities perform functions on behalf of provinces;
  + Misalignment of funding and functions for district and local municipalities;
  + Combining two dysfunctional / distressed municipalities does not yield a functional municipality;
  + The overlap between the Municipal Systems Act (MSA) and the Municipal Finance Management Act (MFMA) has blurred the functional responsibilities for local government performance monitoring and oversight among national and provincial treasuries and provincial departments of cooperative governance;
  + Non-compliance to the MFMA and Public Finance Management Act (PFMA) is endemic across all spheres of government, for instance the payment to suppliers within 30 days, and this threatens the viability of businesses; and
  + Past initiatives on reversing the culture of non-payment of suppliers have not achieved the desired results.

1. **Submission by the Department of Cooperative Governance**

The Department of Cooperative Governance (DCOG) supported the rollover of funds for the *Municipal* *Demarcation Transition Grant* and the additional allocations for disaster relief and recovery and for the bucket eradication programme. DCOG highlighted that household growth is driving the demand for service delivery in municipalities with metropolitan municipalities experiencing the highest levels of growth. Municipalities were still experiencing challenges across the infrastructure development life cycle which comprises of project identification, infrastructure planning, financing, construction to operations and maintenance. The root causes for these infrastructure challenges include weak institutional capacity and shortage of skills. These infrastructure challenges limit the municipalities’ ability for increased economic development which has spin-offs for job creation and a larger municipal tax base. DCOG also pointed out that ongoing-instability in senior municipal management positions has a negative impact on service delivery to communities.

DCOG reported on municipalities that were identified by National Treasury as being in financial distress in 2016/17. These are Gariep in the Eastern Cape; the City of Matlosana, Ditsobotla, and Naledi in the North West; Emfuleni, Randfontein and Mogale City in Gauteng; Matjhabeng, Maluti-a-Phofung, Nketoana, Ngwathe, Dihlabeng, Moqhaka and Nala in the Free State; and Thabazimbi, Musina and Ba Phalaborwa in Limpopo. DCOG also reported on municipalities identified by the Auditor-General as having seven or more findings in financial health indicators and then highlighted those municipalities on DCOG’s list of priority in terms of interventions.

In terms of enhancing revenue and debt collection in municipalities, DCOG highlighted their support and assistance to municipalities which include:

* The Simplified Revenue Plan Project (i.e. the development and implementation of municipal-specific revenue plans for 30 selected municipalities);
* Review and update of revenue policies and by-laws;
* Billing;
* Data cleansing and analysis;
* Indigent register management;
* Customer relations management; and
* Administration.

Intergovernmental co-ordination and collaborations for responding to local government challenges relate to matters such as Eskom debt by municipalities; debt owed by government to municipalities; response and improvement to municipal audit outcomes and other financial management and governance matters; Spatial Planning and the Integrated Urban Development Framework; and service delivery and the implementation of Outcome 9 (A responsive, accountable, effective and efficient local government system). These collaborations entail relevant stakeholders such as national and provincial departments of cooperative governance, national and provincial treasuries, South African Local Government Association, the Department of Planning, Monitoring and Evaluation, the Auditor-General South Africa, and the Department of Public Works. DCOG reported that work is underway by the Ministers of COGTA and Finance in finding measures to eliminate possible overlaps in their respective functions as prescribed by the MFMA and the MSA.

1. **Comments by the Financial and Fiscal Commission**

The FFC welcomed the confirmation of an additional R1.9 billion to the baseline of local government allocations announced in the 2017 MTBPS, as this would significantly cushion the poor from the risks associated with low economic growth. However, it remained concerned about the continued subdued growth rates of the local government equitable share (LGES). In order to ensure that this did not compromise the delivery of basic services, municipalities would need to use available resources more efficiently and also find alternative revenue sources. The FFC reported that municipalities needed to improve their revenue management, billing and debt management systems, impose cost-reflective tariffs and avoid under-spending and inefficient procurement processes.

In terms of rollovers, the FFC reported that the decrease from R412 million in the 2016/17 financial to R217 million in 2017/18 suggested that government was exercising stricter controls with regard to monitoring expenditure and rollover requests.

The Commission further submitted that it supported the R500 million for water and sanitation programmes so as to address issues of access and backlogs within the sector. It however expressed concern about the indirect component of the grant being used to address water and sanitation programmes due to the fact that direct grants performed better. The FFC further noted the R19.8 million to be added to the Comprehensive HIV/AIDS and TB Grant to assist the funding gap that is weakening the effectiveness of the malaria programme. It submitted that government funding for malaria was critical to accelerate progress towards the elimination of malaria.

The FFC reported that conditional grants would continue to experience positive, but very low, real growth. It further welcomed the intention to introduce performance incentives within the Municipal Infrastructure Grant (MIG) for intermediate cities and within the Public Transport Network Grant, as this was in line with its previous recommendations. The FFC emphasised that incentives should be based on clearly defined, but differentiated, performance indicators. It was of the view that municipalities needed to improve their revenue management, billing and debt management systems, impose cost reflective tariffs, and avoid incidences of underspending as well as inefficient procurement processes.

1. **Findings**

The Committee made the following findings during its deliberations with stakeholders on the 2017 Division of Revenue Amendment Bill:

* 1. The Committee welcomes the reprioritisation of R265 million towards the bucket eradication programme to allow the Department of Water and Sanitation to continue with the bucket eradication projects that the department had already identified and committed to implementing. The Committee views the bucket eradication programme as critical to improving the quality of life of South Africans.
  2. The Committee remains concerned about the capacity of national, provincial and local spheres of government to spend infrastructure funding that has led to reduced or reprioritised allocations. Of particular concern is that R415 million in unspent funds have been declared as savings on the (indirect) school infrastructure backlogs grant due to the poor spending performance. The Committee maintains that under expenditure on infrastructure allocations hampers economic growth and undermines the achievement of the country’s developmental goals.
  3. The Committee notes that non-compliance with the Municipal Finance Management Act (MFMA) and the Public Finance Management Act (PFMA) remains a challenge across all spheres of government (i.e. payment to suppliers within 30 days) and threatens the viability of businesses, especially small, medium and micro enterprises and co-operatives. In addition, past initiatives on reversing the culture of non-payment have not achieved the desired results. The Committee views compliance with legislation as non-negotiable.
  4. The Committee notes with serious concern National Treasury’s submission that some municipalities are failing at effectively delivering services, billing for services and collecting the revenue due. In addition, the governance at these municipalities have been weak with inadequate leadership and guidance. The Committee welcomes proposals for a collective and coordinated approach that is consistently applied by all spheres of government aimed at addressing local government service delivery challenges and maladministration. The Committee emphasises that focus must be all-encompassing and directed towards municipal financial sustainability.
  5. The Committee welcomes and supports the Department of Cooperative Governance submission which indicates various collaboration and co-ordination efforts underway in supporting local government. However, the Committee is of the view that detailed timelines and performance targets should be embedded in all collaborative efforts.
  6. The Committee notes that the Department of Cooperative Governance supports proposed amendments to the Division of Revenue Amendment Bill, including adjustments to provincial and local government conditional grants. The Committee views the working together of state departments as critical in government’s outcomes approach.

1. **Recommendations**

The Standing Committee on Appropriations, having considered the submissions from stakeholders on the 2017 Division of Revenue Amendment Bill, recommends as follows:

**10.1** That the Minister of Finance should ensure that National Treasury effect the proposed corrections to the following conditional grant frameworks that were submitted together with the Bill, in accordance with section 16(4) of the Division of Revenue Act, 2017:

* Comprehensive HIV, AIDS and TB grant;
* Health Professions Development and Training Grant;
* National Health Insurance Indirect Grant: Health Professionals Contracting Component;
* National Health Insurance Indirect Grant: Ideal Clinics Component;
* National Tertiary Services Grant; and
* Substance Abuse Treatment Grant.

**10.2** That the Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs should ensure that National Treasury and the Department of Cooperative Governance and relevant stakeholders develop and set explicit targets with timelines and submit quarterly reports on:

* + Ensuring alignment of funding and functions for district and local municipalities;
  + Ensuring there are mechanisms that minimise overlaps between the Municipal Systems Act and the Municipal Finance Management Act so as to allow clear and unambiguous functional responsibilities for local government performance monitoring and oversight among national and provincial treasuries and provincial departments of Cooperative Governance;
  + Ensuring that non-compliance with legislation is eliminated, transgressors are identified in this regard, and that consequence management is applied;
  + Matters pertaining to improvements in municipal audit outcomes and other related financial management.
  1. The Minister of Water and Sanitation and the Minister of Finance ensure that the Department of Water and Sanitation and the National Treasury ring-fence funding for sanitation programmes, bolster efforts at accelerating sanitation programmes, and enhancing the delivery capacity for the bucket eradication programme.

**10.4** The Minister of Cooperative Governance should ensure that the Department of Cooperative Governance develop and set explicit targets with timelines and submit quarterly reports on its collaborative interventions in local government including the following:

* + On matters relating to Eskom debt owed by municipalities;
  + On matters relating to debt owed by government to municipalities; and
  + On matters pertaining to improvements in governance.

10.5 That the Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs should ensure that National Treasury and the Department of Cooperative Governance and relevant stakeholders consult broadly and develop initiatives on reversing the culture of non-payment across the three spheres of government.

1. **Committee Recommendation on the Bill**

The Standing Committee on Appropriations, having considered the Division of Revenue Amendment Bill [B24 - 2017] (National Assembly) referred to it and classified by the Joint Tagging Mechanism (JTM) as a Section 76 Bill, recommends that the Bill be adopted, without amendments.

Report to be considered.