



**NEGOTIATING MANDATE**

**TO:** The Chairperson of the Select Committee on Appropriation

Hon. S.J. Mohai

**NAME OF BILL:** Division of Revenue Bill

**NUMBER OF BILL:** [B4-2017]

**DATE OF DELIBERATION:** 20 April 2017

**VOTE OF THE LEGISLATURE:**

The Gauteng Provincial Legislature supports the principle and the detail of the bill and therefore votes in favour of-

- Division of Revenue Bill.

**HON. S KHUMALO**

Chairperson of Finance Portfolio Committee

**GAUTENG PROVINCIAL LEGISLATURE**

Date: 20 APRIL 2017





## FINANCE PORTFOLIO COMMITTEE

### 1. REPORT ON THE NEGOTIATING MANDATE OF THE DIVISION OF REVENUE BILL [B4-2017] – SECTION 76

The Chairperson of the Finance Portfolio Committee (Portfolio Committee), Mr S Khumalo tabled a report on the Negotiating Mandate of the Division of Revenue Amendment Bill [B4-2017] (*the Bill*).

#### 1.1 INTRODUCTION

The Bill is introduced in terms of section 76 of the Constitution of the Republic of South Africa, 1996 (“the Constitution”) and it is widely referred to as a section 76 Bill.

The Bill is introduced annually to give effect to Section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1990 (“IGFRA”). The Bill provides for the equitable Division of Revenue anticipated to be raised nationally among the National, Provincial and Local spheres of Government for the 2017/18 financial year.

The total revenue raised and to be shared amongst the three spheres of government, amounts to R1 409 215 000 in 2017/18, increasing to R 1 522 183 000 in 2018/19 and R1 652 192 000 in 2019/20 financial years respectively. It is worth noting that Gauteng Province receives total national transfers of R107 471 365 000 comprising of R 86 643 989 000 billion in equitable share and R20 828 376 000 in conditional grants for the 2017/18 financial year.

#### 1.2 PROCESS FOLLOWED

The Speaker of the Gauteng Provincial Legislature formally referred the Bill to the Finance Portfolio Committee (“Portfolio Committee”) for consideration in terms of Gauteng Provincial Legislature Standing Rule 245(1) read with 247 (1) and 248.

On Saturday, 08 April 2017, the Portfolio Committee received a briefing on the Bill by the NCOP Gauteng Permanent Delegate Hon. T. Motara, who was supported by officials from National Treasury.

As required by the Standing Rules of the Gauteng Provincial Legislature, the Portfolio Committee invited stakeholders to their meetings mainly to observe Committee proceedings and later make verbal or written submissions. Subsequent to the Portfolio Committee meeting on Saturday, 08 April 2017, the Portfolio Committee conducted a public hearing to receive submissions from stakeholders. Furthermore, another public hearing was conducted on Tuesday, 18 April 2017.

On Thursday, 20 April 2017, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

### **1.3 PRINCIPLE AND DETAIL OF THE BILL AND THE GOVERNMENT'S POLICY PRIORITIES FOR THE 2017/18 MTEF**

To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2017/18 financial year, the determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share and the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

The allocations to the three spheres of government for the 2017/18 financial year and MTEF are informed by national interest encapsulated in government priorities that benefit the nation as a whole. These priorities are outlined in the National Development Plan, which sets out the country's long-term development trajectory. Complemented by the strategic integrated projects overseen by the Presidential Infrastructure Coordinating Council and the 14 priority outcomes adopted by Cabinet in 2014-2019 Medium Term Strategic Framework (MTSF).

In addition, the Division of Revenue for the 2017/18 financial year is mainly in line with the recommendations made by the Financial and Fiscal Commission ("FFC"), which is mandated by Section 220 of the Constitution to provide information to all organs of state in order to make informed decisions about complex fiscal matters. The FFC consults on these matters with all the three spheres of government.

### **1.4 CONSTITUTIONAL AND STATUTORY FRAMEWORK**

Section 214 of the Constitution requires that an Act of Parliament must provide for:

- The equitable division of revenue raised nationally among national, Provincial and local spheres of government;
- The determination of each province's equitable share of the provincial share of that revenue; and
- Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and for any conditions on which those allocations may be made.

Further than this, section 7(3) of the Money Bills Amendment Procedure and Related Matters Act, 2009, requires the introduction of the Division of Revenue Bill at the same time as the Appropriation Bill is introduced.

The Bill seeks to amongst others, give effect to the provisions of Section 214 of the Constitution. These include national interest, debt provision, the needs of national government, flexibility in responding to emergencies, resource allocation for basic services and developmental needs, the fiscal capacity and efficiency of provincial and local government, the reduction of economic disparities, and the promotion of stability and predictability. It is noted in this regard that the bill is in alignment with the Constitution and other relevant statutory framework.

#### **1.5 OPINION OF THE PROVINCIAL EXECUTIVE COUNCIL ON THE BILL**

**The Portfolio Committee notes that the Division of Revenue Bill and its underlying allocations are the results of extensive consultation between national, provincial and local government.** The Gauteng Provincial Treasury on behalf of the Provincial Executive Council is satisfied that the 2017 Division of Revenue Bill has adequately given expression to government priorities despite reductions in the baselines.

#### **1.6 SOCIO-ECONOMIC IMPACT**

The reprioritization of funds in the division of revenue for 2017 aims to fund among others:

- The strengthening of specialised tertiary health services for children through a new paediatric hospital

- The preservation of school nutrition to counter the effects of food price and increasing the number of children receiving meals;
- Providing Free Basic Services to poor households;
- Promoting access to social housing;
- Introducing a new grant to promote equitable, country-wide access to social services; and
- Introducing a new grant to educate learners with profound intellectual disabilities.

**Despite the reductions in baselines, the Portfolio Committee notes with appreciation that the 2017 MTEF ensured that funding of priorities through reprioritization protects social services.**

## **1.7 FINANCIAL IMPLICATIONS OF THE BILL**

Central to the government's fiscal objectives over the MTEF is to stabilize the growth of debt as a share of GDP and adhere to the planned expenditure ceilings. On the contrary, important public spending that help the poor, generate growth and create employment are cushioned from major reductions. The baseline reductions in terms of budget allocations are shared across the three spheres of government in proportion to the division of revenue. **The Portfolio Committee notes that a weaker than expected economic and fiscal environment means that budget has to be reprioritized to fund emerging and changing government priorities.**

There is a baseline reduction of R500 million in equitable share in 2017/18 and baseline reductions of R1.6 billion over the 2017 MTEF period. Despite the baseline reductions, the average annual growth rate in provincial equitable share is 7.2% over the medium term expenditure framework. In respect of conditional grants, there is also a baseline reduction of R3.9 billion on direct grants, however indirect grants receive additional allocation of R2.6 billion. **Notwithstanding the budget estimates reductions in conditional grants, the Portfolio Committee welcomes the healthy growth of conditional grants allocations over the MTEF at an average annual rate of 8.6%.**

The financial implication with regard to the provincial equitable shares is that the total revenue raised and to be allocated between the three spheres of government, amounts to R1 409 215 000 in 2017/18, increasing to R1 522 183 000 in 2018/19 and R1 652 192 000 in 2019/20 financial years respectively. **Of importance, the Portfolio Committee also notes that these allocations takes into consideration government's spending priorities, each sphere's revenue raising capacity and responsibilities, and input from various intergovernmental forums and the recommendations of the FFC.**

Table 1: Total Transfers to provinces, 2017/18

R million	Equitable Share	Conditional Grants	Total Transfers
Eastern Cape	61 848	11 297	73 145
Free State	24 522	7 267	31 789
Gauteng	86 643	20 282	107 471
Kwa-Zulu Natal	93 757	18 824	112 580
Limpopo	51 960	7 885	59 845
Mpumalanga	31 082	7 183	43 264
Northern Cape	11 720	4 289	16 009
North West	30 330	7 552	37 882
Western Cape	44 470	11 580	56 050
Unallocated	-	123	123
<b>Total</b>	<b>441 331</b>	<b>96 829</b>	<b>538 160</b>

Source: National Treasury

Table 1 above is a graphical representation of total transfers to provinces for the 2017/18 financial year. Gauteng Province receives R86 643 000 000 from the equitable share allocation and R20 282 000 000 for conditional grants in 2017/18 financial year which amounts to R107 471 000 000.

These allocations take into consideration key trends in equitable share data updates like, education component, health component, basic component, poverty component, economic activity component and institutional component. For the education component, Kwazulu-Natal receives the highest allocation of 22.3% followed by Gauteng at 18%. Gauteng ranks highest on the health component share, basic share component, and the economic activity share at 21.8%, 24.1% and 34.3% respectively. **The Portfolio Committee welcomes the equitable share data updates and urges National Treasury to continuously update such data to ensure credible and reliable data which reflects the state of the province.**

## 1.8 CONDITIONAL GRANTS TO GAUTENG PROVINCE

**The Portfolio Committee notes that despite baseline reductions, overall growth in indirect conditional grants is robust, averaging 8.6% over the MTEF period.** Direct conditional grants baselines amount to R96.8 billion in 2017/18, R107.1 billion in 2018/19 and R114.3 billion in 2019/20. On the other hand, indirect conditional grants total R4.3 billion, R1.8 billion and R1.9 billion respectively for each year of the MTEF.

The Portfolio Committee further noted the changes in the conditional grants as follows:

- In order to make provision for the continued expansion of ARV coverage in response to the national test and treat policy, the **Comprehensive HIV and Aids Grant** receives an amount of **R1.4 billion**;

- Reducing reporting requirements by no longer requiring the submission of draft capacity reports
- Clarification that withholding is done to prevent underspending by the receiving officer (and not the transferring officer)
- Provisions added to allow for non-payment or underpayments for the local government equitable share to be corrected

#### **1.10 SUMMARY OF SUBMISSIONS**

In line with the requirements of the Constitution of the Republic of South Africa, the Portfolio Committee invited key stakeholders to make submissions. Hereunder is the summary of submissions relevant to the Division of Revenue Bill:

- Closer monitoring of government expenditure to ensure that monies earmarked for service delivery are not returned to the revenue fund;
- That the Provincial Health Revitalisation Grant should not be reduced in view of health facilities that are in a state of dilapidation; and
- Whether the discontinuation of the National Health Insurance (NHI) spells the end of the NHI project.

**The Portfolio Committee notes that submissions from stakeholders will be forwarded to National Treasury for consideration.**

#### **1.11 COMMITTEE RECOMMENDATIONS ON THE DIVISION OF REVENUE**

**1.11.1 That National Treasury should maintain a delicate balance between government debt as a percentage of the GDP and fiscal policy targets without compromising service delivery; and**

**1.11.2 That national Treasury should constantly update the provincial equitable share data to ensure validity and reliability of such data in making transfers to the provinces.**

#### **1.12 FINAL POSITION ADOPTED BY COMMITTEE**



The Finance Portfolio Committee supports the principle and detail of the Division of Revenue Bill  
[B4 – 2017] - Section 76.

