



GAUTENG
LEGISLATURE
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FINAL VOTING MANDATE

TO: The Chairperson of the National Council of Provinces

Hon. Thandi Modise

NAME OF BILL: Division of Revenue Bill

NUMBER OF BILL: [B2-2018]

DATE OF DELIBERATION: 26 April 2018

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. Ntombi Mkgwe

Speaker

GAUTENG PROVINCIAL LEGISLATURE

Date: 26/04/2018

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1. REPORT ON THE FINAL VOTING MANDATE OF THE DIVISION OF REVENUE BILL [B2-2018] – SECTION 76

The Chairperson of the Finance Portfolio Committee (Portfolio Committee), Mr S Khumalo tabled a report on the Final Voting Mandate of the Division of Revenue Bill [B2-2018] (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, Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009 and the Intergovernmental Fiscal Relations Act, 1990 (“IGFRA”). The Bill provides for the equitable Division of Revenue raised nationally among the National, Provincial and Local spheres of Government for the 2018/19 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 Wednesday, 28 March 2018, the Portfolio Committee received a briefing on the Bill conducted by the 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. The notices of public hearing and request for submissions were published in the newspapers (Sowetan, 05 April 2018 and City Press 08 April 2018). The Portfolio Committee conducted a public hearing on Tuesday, 17 April 2018, to receive submissions from stakeholders. Submissions were received from SALGA and stakeholders who attended the public hearing.

On Friday, 20 April 2018, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

On Wednesday, 26 April 2018, the Committee received minutes from the Select Committee of Appropriations on the consideration of negotiating mandates on the Division of Revenue Bill [B4-2016], which confirmed that there were no amendments to the Bill, as referred. In the same meeting the Portfolio Committee deliberated on and adopted a report on the Final Mandate of the Division of Revenue Bill [B2-2018].

In view of there being no House Sitting to consider the Division of Revenue Bill Final Voting Mandate due on 02 May 2018, the Portfolio Committee requested the Speaker to invoke GPL Rule 36 (1), in order for Gauteng Province to be able to vote on the Bill.

Which reads as follows:

36. Regulation of the House business when the House is not in sitting during Business period

(1) The Speaker may, in consultation with the leaders of political parties, settle certain matters including but not limited to the adoption of the final mandate

1.3 PRINCIPLE AND DETAIL OF THE BILL AND THE GOVERNMENT'S POLICY PRIORITIES FOR THE 2018/19 MTEF

The Bill seeks to provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2018/19 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 2018/19 financial year and MTEF are informed by national interest summarized 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. Moreover, they are 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 2018/19 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

The Constitution of the RSA, 1996

Section 214(1) of the Constitution makes provision for the equitable shares and allocation of revenue and it provides:

- (1) *An Act of Parliament* must provide for—
 - (a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;
 - (b) the determination of each province's equitable share of the provincial share of that revenue; and
 - (c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made."

It is therefore imperative for the Bill to be considered, in order to comply with the constitutional prescript.

Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009

The Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009 was enacted to provide for a procedure to amend Money Bills before Parliament and for norms and standards for amending Money Bills before provincial legislatures and related matters. It applies to all proposed amendments to Money Bills before Parliament. Section 7(3) of this Act requires the Minister to introduce this Bill at the same time as the Appropriation Bill. This requirement has been met.

Intergovernmental Fiscal Relations Act No. 97 of 1997

The purpose of the Intergovernmental Fiscal Relations Act is to promote co-operation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters; to prescribe a process for the determination of an equitable sharing and allocation of revenue raised nationally; and to provide for matters in connection therewith. To this extent, the national government consulted with provincial governments and organised local government during the drafting of this legislation.

It is the Committee's considered view that the Bill was introduced in compliance with the Constitution, the Intergovernmental Fiscal Relations Act, 1997, and the Money Bills Amendment Procedure and Related Matters Act, 2009; and it is aligned to the aforementioned legislation.

1.5 OUTCOME OF THE NEGOTIATING PROCESS

The Committee mandated Hon. Motara to table the negotiating in favour of the Bill, with five recommendations and the National Treasury responded as follows:

- Regarding the vertical division of revenue – the LGES allocation has grown the fastest of the three spheres over the past decade. In addition, local government has substantial own revenue possibilities, as opposed to provinces. However, the indication is that there is often under-collection by municipalities. There is also the issue of whether increases really go to delivering services to the poor, or whether it is used to pay salaries?
- National Treasury, among others, is currently providing support to municipalities on debt management.

Eight provinces with the exception of Western Cape voted unanimously in favour of the Division of Revenue Bill [B4-2018] as referred and the National Treasury responded to some of the recommendations by provinces.

1.6 OPINION OF THE PROVINCIAL EXECUTIVE COUNCIL ON THE BILL

The Gauteng Provincial Treasury on behalf of the Provincial Executive Council is satisfied that despite the challenging economic outlook that affects the country, during the 2018 Medium Term Expenditure Framework, the Gauteng province equitable share grows steadily by 0.1%. Thereby reaffirming that Gauteng remains the most populous province over the MTEF.

1.7 SOCIO-ECONOMIC IMPACT

Following the baseline reductions, the 2018 division of revenue demonstrates commitment to meeting basic needs of citizens and eradicating the triple challenges, that is, poverty, unemployment and inequality. To this extent, reprioritization of funds in the division of revenue for 2018 include:

- The introduction of Emergency Housing Grant to improve government's responsiveness to housing disasters;
- The augmentation of the Comprehensive HIV, AIDS and TB Grant to intensify the role of home-based carers;
- Protecting the National School Nutrition Grant from reductions to provide meals to poor learners;
- Continuous provision of free basic services to poor households; and
- Promoting access to social housing by boosting subsidies.

The 2018 division of revenue displays a pro-poor policy stance in that it provides social safety nets to vulnerable communities. It further gives impetus to the redistributive agenda by allocating household transfers to most rural municipalities, twice larger than metropolitan municipalities.

The Portfolio Committee welcomes the 2018 division of revenue and cautions National Treasury to continue maintaining the delicate balance between social and economic infrastructure investment in the budget.

1.8 FINANCIAL IMPLICATIONS OF THE BILL

The remarkable 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. However, important public spending that help the poor, generate growth and create employment are cushioned from major reductions. The 2018 division of revenue reprioritizes existing funds to ensure these objectives are realized albeit within the reduced expenditure envelope. **The Portfolio Committee dissuades government from expansive fiscal policy as that would translate into a greater debt-to-GDP ratio and impair its ability to deliver essential services to citizens.**

Contrary to what was announced during the Medium Term Budget Policy Statement, the overall baseline reductions in allocations amounts to R85 billion over the 2018 MTEF period, before funding fee-free higher education. The reductions for national government amounts to R54.4 billion, R18.4 billion in provincial transfers and R13.9 billion for local government. **The Portfolio Committee notes that the reductions are small relative to percentage of total allocations, that is, -2.1% for national government, -1% for provinces and -3.5% for local government exclusive of own revenue.**

Despite the baseline reductions, the average annual growth is above the inflation rate for all three spheres of government over the 2018 MTEF. Of importance, the provincial equitable share growth over the MTEF is at 6.9%. Similarly, conditional grants overall growth in indirect conditional transfers averages 5.9% over the MTEF. The indirect conditional grant baselines total R100 711 000 000 in 2018/19, R106 739 000 000 in 2019/20 and R115 008 000 000 in 2020/21. **The Portfolio Committee welcomes the growth in conditional grants which includes the introduction of 2 new grants and the augmentation of one existing grant.**

Excluding the debt-service costs and the contingency reserves, the total revenue raised and to be allocated between the three spheres of government, amounts to R1 324 076 000 000 in 2018/19, increasing to R1 426 907 000 000 in 2019/20 and R1 533 593 000 000 in 2020/21 financial years respectively. **Of importance, the Portfolio Committee also notes that these allocations take 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, 2018/19

R million	Equitable Share	Conditional Grants	Total Transfers
Eastern Cape	65 500	11 263	76 763
Free State	26 178	7 561	33 739
Gauteng	93 384	21 511	114 895
Kwa-Zulu Natal	99 264	19 753	119 017
Limpopo	55 179	8 544	63 723
Mpumalanga	38 468	7 937	46 404
Northern Cape	12 475	4 387	16 862
North West	32 392	7 467	39 859
Western Cape	47 447	11 904	59 351
Unallocated	-	384	384
Total	470 287	100 711	570 997

Source: National Treasury

Table 1 above is a graphical representation of total transfers to provinces for the 2018/19 financial year. Gauteng Province receives R93 384 000 000 in equitable share allocation and R21 511 000 in conditional grants for the 2018/19 financial year, which amounts to R114 895 000 000.

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 18.1%. Gauteng ranks highest on the health component share, basic share component, and the economic activity share at 22.4%, 24.7% and 34.1% respectively.

Of note, there is a change in the education component of the formula from 2017 onwards. Initially, learner enrolment numbers were based on annual school surveys. To ensure the formula remains equitable and fair, and reflects the most recent and officially endorsed data, it will use data from the Department of Basic Education system, LURITS. **The Portfolio Committee welcomes the improvements on the education component of the formula of the equitable share, as that will ensure in-migration which takes place after the enrolment process is taken into consideration.**

1.9 FINAL POSITION ADOPTED BY COMMITTEE

After due consideration, the Finance Portfolio Committee in accordance with Rule 163, adopted the report in support of the Division of Revenue Bill [B2-2018] Section 76, as referred and recommends its adoption by the House.

1.10 ACKNOWLEDGEMENTS

The Portfolio Committee extends gratitude to the Honourable MEC B. Creecy, the Head of Department Ms. S Tshabalala and officials of the Gauteng Provincial Treasury for their cooperation during the processing of the Bill.

Thanks and appreciation to all Members of the Finance Portfolio Committee, Ms. C. Ranoka; Mr. M. Kanyane; Ms. B. Mncube; Ms. J. Pekane; Mr. M. Moriarty; Ms. A. Randall; Mr. A. Sarupen; and Ms. M. Mashego. It is an honour to lead such a committed team.

The Committee's gratitude is extended to the following support staff: Group Committee Coordinator Mr. T. Bodibe, Senior Committee Coordinators Mr. J. Ntsane and Ms. M. Mojapelo, Researchers Mr. M. Tshehla and Ms. L. Chiloane; Information Specialist Ms. T. Bodibe; Legal Advisor Ms. W. Ngubane; Media Officer Mr. A. Dikola; Committee Administrators Ms. C. De Beer and Mr. Z. Mabuza, Service Officer Ms. R. Msimanga, Catering Assistant Ms. E. Nthene and Hansard Recorder Ms. R. Singh.