# 2018 DIVISION OF REVENUE BILL

**Responses to recommendations contained in the negotiating mandates of Provincial Legislatures**

NATIONAL TREASURY

The Select Committee on Appropriations met in Cape Town on 24 April 2018 to consider the negotiating mandates on the Division of Revenue Bill, 2018, 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.

Where recommendations cannot be responded to by National Treasury, these will be referred to the relevant national sector departments or other stakeholders and they will be requested to respond directly to the Select Committee on Appropriations.

## EASTERN CAPE

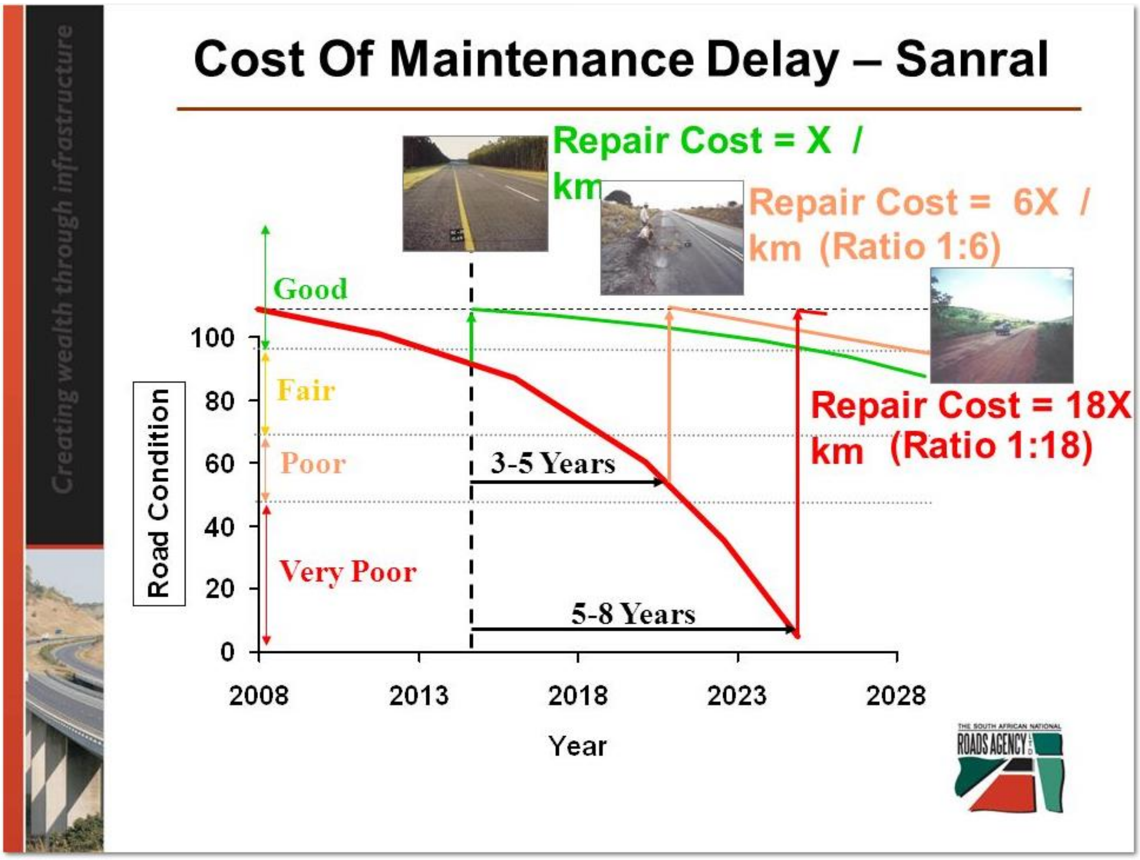
1. **The Provincial Road Maintenance Grant is inaccessible to rural municipalities, yet municipalities such as Ndlambe also depend on agriculture as another source of revenue but the condition of rural roads make this difficult. The bad condition of the roads surface threatens the produce from meeting the strict requirements of international markets, more so, the EU market. There is no information on how some provincial grants can be accessed.**

National Treasury notes that several provinces have raised concerns about the state of provincial roads and the funding for their maintenance and improvement. National Treasury will raise these concerns with the Department of Transport during the 2019 Budget Process to see how the issues raised can best be addressed.

Having good quality and well maintained roads is essential for the delivery of services and the promotion of economic activity, especially in remote rural areas. Government is committed to promoting the adoption of best practices in road maintenance by provinces and municipalities. To this end, both spheres have been funded to develop road asset management systems that can be used to guide where maintenance should be prioritised (based on road condition and traffic volumes on different parts of the road network).

Failure to maintain any asset means that the useful life is significantly reduced, requiring rehabilitation and rebuilding sooner than expected. As figure 1 (below) from the South African National Roads Agency Limited shows, a well-managed road maintenance regime is a
cost-effective way to improve overall network conditions.

**Figure 1: Impact of delayed maintenance on the cost of road repairs (SANRAL)**




If maintenance of a road is delayed by three to five years, the cost of repair increases to six times the cost of the original (normal) maintenance costs. If maintenance is delayed further, between five and eight years, the cost of repairs increases to 18 times the original cost.

This shows the need for periodic and routine maintenance, and hence this is the focus of the Provincial Roads Maintenance Grant (PRMG). If the PRMG was to be used for upgrading, refurbishment or laying of new roads that would divert funds away from the maintenance of existing roads. The importance government places on the importance of investing in timely maintenance is reflected in the fact that the PRMG can only be used to fund road maintenance.

The PRMG is a supplementary grant, which means that provinces are also expected to contribute towards road maintenance from their own budgets. Provinces can also fund new or upgraded roads from their own budgets. The PRMG also includes an incentive component that rewards provinces that have invested efficiently in the maintenance of their road network. In too many cases in the past, provinces have delayed needed maintenance and now face maintenance backlogs that will be very expensive to recover from. The PRMG is designed to encourage the adoption of best practices so that this situation is not repeated in future.

The PRMG is a grant to provinces and is intended to only fund the maintenance of provincial roads. Municipalities receive the Rural Roads Asset Management Grant and can use funds from the Municipal Infrastructure Grant for roads maintenance, on condition that they use data from the Rural Roads Asset Management System to identify and prioritise road maintenance projects.

2. **Prior to the reduction of the budget allocation, the National Treasury should check all provinces to ensure that there is equitable share as the Eastern Cape is highly affected by a high rate of unemployment and surrounded by rural areas which significantly affects the revenue collection of the province. Conditional grant cuts to local municipalities should not be a one size fits all, specific conditions in each municipality should be considered.**

All provinces were consulted on the reductions to previously announced equitable share transfers before these were tabled in the 2018 Budget. Provincial Treasuries were consulted on technical level through the Technical Committee on Finance and Finance MECs were consulted through the Budget Council.

Although the transfers through the provincial equitable share are reduced from what had been indicated in the 2017 Medium Term Budget Policy Statement, transfers to each province still grew from 2017/18 to 2018/19, as shown in the table below. Even after accounting for the impact of inflation, allocations to all provinces grew by small amounts in real terms.

**Provincial Equitable Share Allocations: 2017/18-2018/19**

| R' 000 | 2017/18 | 2018/19 | Growth | Real Growth |
|---|---|---|---|---|
| Eastern Cape | 61 847 808 | 65 499 660 | 5.9% | 0.2% |
| Free State | 24 521 941 | 26 178 043 | 6.8% | 1.1% |
| Gauteng | 86 642 989 | 93 384 285 | 7.8% | 2.1% |
| KwaZulu-Natal | 93 756 530 | 99 263 681 | 5.9% | 0.2% |
| Limpopo | 51 960 337 | 55 178 775 | 6.2% | 0.5% |
| Mpumalanga | 36 081 680 | 38 467 686 | 6.6% | 0.9% |
| Northern Cape | 11 719 981 | 12 475 021 | 6.4% | 0.7% |
| North West | 30 329 643 | 32 391 895 | 6.8% | 1.1% |
| Western Cape | 44 470 213 | 47 447 464 | 6.7% | 1.0% |
| **Total** | **441 331 122** | **470 286 510** | **6.6%** | **0.9%** |

3. **The criteria used to ensure that there is equitable share in all the provinces has to be looked over, taking into consideration that Eastern Cape has serious infrastructural challenges and backlogs.**

The provincial equitable share formula is being reviewed through a process led by National Treasury and in consultation with all stakeholders, including provinces. As part of this process, the Financial and Fiscal Commission will host a rural colloquium in 2018 to examine how to address rural-urban tensions in the funding of provinces.

Infrastructure backlogs are generally funded through conditional grants. The Eastern Cape's backlogs in education infrastructure for example are reflected in the fact that it receives the second largest allocation from the Education Infrastructure Grant (R1.5 billion) and a further R1.1 billion from the School Infrastructure Backlogs Grant (no other province receives more than R115 million from this indirect grant).

**4. The equitable share must also consider an allocation for small or emerging farmers in areas that are considered disaster areas due to drought as they are ones that are largely affected.**

Support to emerging farmers is provided through conditional grants, including the Comprehensive Agricultural Support Programme Grant, the Ilima/Letsema Projects Grant and the Land Care Programme Grant.

Farmers affected by declared droughts are eligible to receive disaster relief funded through the Provincial Disaster Relief Grant. Following the declaration of a disaster, funding from this grant can be applied for from the National Disaster Management Centre (NDMC). The Provincial Disaster Management Centre in each province should assist in conducting initial assessments and submit the application to the NDMC. In 2017/18 disaster relief funds were transferred to the Northern Cape and Western Cape through this process.

**5. Reduction in the School Infrastructure Maintenance Grant and Human Settlements Grants have been reduced this is concerning.**

Reductions to infrastructure grants will result in planned infrastructure being rolled out over a longer period than originally planned. In the case of the School Infrastructure Backlogs Grant, this means that the lifespan of this grant has been extended so that it will continue for the three years of the 2018 MTEF in order to complete its mandate (it had previously been scheduled to end at the end of 2017/18).

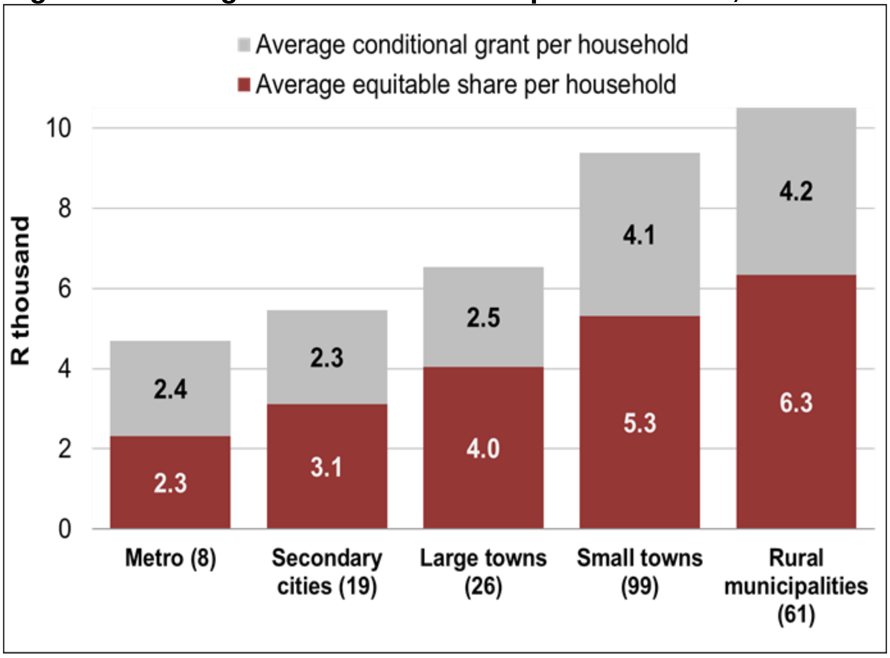
## FREE STATE

**1. The current Equitable Share formula be reviewed as it is not biased towards rural and poor municipalities**

The current local government equitable share formula allocates higher allocations to rural municipalities in recognition of their limited ability to raise their own revenue to fund administration and community services costs. The table below illustrates how the division of revenue in its entirety (including conditional grants) is highly redistributive in favour of rural areas.

As figure 2 (below) shows, allocations of R10 500 per household in rural municipalities are more than twice as much as to metros (R4 700), due to metros’ higher own revenue raising abilities.

**Figure 2: Local government transfers per household, 2018/19**




2. **The basic service component as contained in the provincial equitable share formula should be reviewed in order to consider the burden of additional basic service 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.**

The provincial equitable share formula in addition to learner numbers, total population and economic output takes into account the risk population of each province, and the health workload within each province. The on-going review of the provincial equitable share is however focusing on assessing the cost of providing services within different environments. Given that there are tensions between demand, and cost of provision per person provided, the Financial and Fiscal Commission is leading efforts to assess how fair cost of service provision may be accounted for in the equitable share formula.

3. **National Treasury should include unfunded mandates of certain municipalities e.g. library functions, maintenance and sports facilities.**

In the division of revenue, the allocation of funds to each sphere is based on the functions assigned to each sphere – in other words funds follow function. As the libraries function is assigned to provinces in terms of the Constitution, funds for libraries are transferred to provinces. Municipalities should only agree to provide services on behalf of another sphere if a Memorandum of Understanding or a Service Level Agreement has been signed that clearly stipulates what is being funded, the level and frequency of services and any conditions attached to such funding. This will assist in ensuring that provinces and municipalities also operate effectively, efficiently and economically.

The 2018 Division of Revenue Bill introduces a new provision to address underfunded mandates. Section 30(2) requires that provincial treasuries ensure that provincial budgets account fully for any agreements for a municipality to provide a service on behalf of a province. It is hoped that as this clause is implemented in the 2019/20 provincial budgets (after the 2018 Division of Revenue Bill has been adopted), it will lead to provinces fully funding municipalities for the services they provide on their behalf.

**4. Devolution of Property Rate Funds Conditional Grant must be evoked in order to assist in building economically and financially viable municipalities in enabling them to meet the service delivery priorities of their communities.**

It is the responsibility of provincial and national departments to budget for and pay for the property rates and service charges that they owe to municipalities. The Devolution of Property Rates Grant was introduced for a limited period and its funds have now been incorporated into the provincial equitable share.

The process to address historic debts owed to municipalities is led by the Department of Public Works. This process has verified R4 billion in historic debt, of which R1.6 billion was settled by the end of December 2017. National Treasury is committed to ensuring that the issue of intergovernmental debts is resolved. This includes a circular from National Treasury's Director-General to all government departments and public institutions, instructing them to pay suppliers on time, or be charged with financial misconduct.

**5. Funding of district municipalities should be reviewed in order for it to support and coordinate the local municipalities in their respective districts.**

The local government equitable share is intended to supplement municipal own revenues, or in the case of district municipalities, revenues from the RSC Levies Replacement Grant. A formula is used to ensure the equitable division of available resources to individual municipalities. The primary purpose of the local government equitable share is to assist municipalities with the provision of basic services to poor households. Within the local government equitable share formula, municipalities also receive transfers for the institutional component, which funds for the basic running of the administration of the municipality, and the community services component which subsidises municipal health and other community services.

Due to the ambiguity of functions of district municipalities that emanate from the two-tier system of local government, it is difficult to allocate funding precisely based on the current functions of each district municipality. The Department of Cooperative Governance (DCoG) is in the process of reviewing and resolving outstanding issues regarding the powers and functions of municipalities (including district municipalities) so that any reforms to the fiscal arrangements for local government are based on a clear functional arrangement.

However, as an interim measure, in 2017/18 small adjustments were made to the RSC Levies Replacement Grant to redistribute funds to the 13 district municipalities that received less than R40 million per year from this grant. To fund increased allocations to these district municipalities, the growth rates of the 10 district municipalities with the largest allocations were reduced so that they received two-thirds of their original growth rate in 2017/18 and one-third of their original growth rate in 2018/19. This will result in increased allocations to the district municipalities that have historically received the smallest allocations.

**6. Intergovernmental relations are not functional and effective due to poor political and administrative leadership.**

This conclusion of the Committee is noted and will be shared with the Department of Cooperative Governance.

**7. National Treasury must relook into the bucket eradication grant allocation.**

R1.1 billion is allocated within the indirect Regional Bulk Infrastructure Gant and Water Services Infrastructure Grant allocations for the completion of the bucket eradication programme. This amount is based on the information provided by the national Department of

Water and Sanitation after their assessment of the outstanding work on the programme. The department expects that this will be sufficient to have eradicated all bucket sanitation systems in formal residential areas that were in existence in 2014 (when DWS conducted a verification exercise) by the end of 2018/19. Progress will be reviewed during 2018/19 to ensure that this target is met.

**8. SALGA should ensure that local government is guided and assisted to improve performance of municipalities.**

This recommendation will be shared with the South African Local Government Association (SALGA).

## GAUTENG

**1. National Treasury should devise methods for the efficient management of grants rather than just penalising non-performing grants.**

National Treasury agrees on the need to improve the management of conditional grants, and will continue to work with the transferring officers of conditional grants to improve their performance.

The national department that manages each conditional grant (the transferring officer) is accountable for the management of the grant. They receive and assess business plans for the grant, make payments, monitor progress, provide support and initiate any corrective actions. Each transferring officer must therefore be held accountable for the management of their conditional grant(s). The receiving officers (provinces and municipalities) are accountable for adhering to grant conditions in the way they spend grant funds.

The reductions to transfers over the 2018 MTEF were not made because grants had underperformed. Reductions were needed for fiscal consolidation and to fund other government priorities. Somewhat larger reductions were applied to underperforming grants as a means of minimising the negative impact of these reductions, but the reductions were not applied as a penalty.

**2. National Treasury should consider revising the formula for vertical division of revenue to local government, due to rising unemployment.**

The vertical division of revenue is based on the functions and revenues assigned to each sphere of government. Changes to the vertical division are determined through the budget process, and approved by Cabinet before being tabled in Parliament.

Government recognises that high levels of unemployment remain a challenge across the country. The impact of this on government services is felt by all three spheres of government, and activities to promote improved economic growth and stimulate employment are also undertaken by all spheres of government, hence it would not be appropriate to reduce national and provincial allocations in favour of local government in response to high unemployment levels.

3. **National Treasury together with SALGA should devise new revenue streams for local government to avoid municipalities being in financial distress.**

National Treasury is reviewing the own revenue capacity and powers of metropolitan municipalities. This review may result in recommendations for new revenue streams for municipalities, but stakeholders should be aware that the introduction of any new revenue powers is likely to take time to implement and should not be viewed as a near-term solution to municipal revenue challenges.

To avoid getting into financial distress, municipalities should focus on maximising their existing own revenues, and eliminating any non-priority costs. These are measures that can be implemented immediately to avoid potential financial distress.

4. **National Treasury should improve revenue enhancement mechanism to avoid imposing value added tax on the poor.**

National government is committed to ensuring the sound management of the South African Revenue Service (SARS). In the 2018 Budget Review, National Treasury noted that, “It has taken many years to build the foundation of trust that underpins South Africa’s tax morality. But such trust can erode rapidly. In recent years, corruption and wasteful expenditure in the public sector have eroded taxpayer morality. The lack of an effective government response to allegations of corruption and poor governance has undermined the social contract between taxpayers and the state.”

In response, the President has established a commission of inquiry into the functioning and governance of SARS. Steps will be taken to improve the governance and accountability of SARS, and to strengthen the operational independence of the Tax Ombud, following recommendations made by the Davis Tax Committee.

The decision to increase value added tax (VAT) was only taken after all other options had been considered. The basket of zero-rated basic items helps to reduce the impact of the one percentage point increase in VAT. In addition to this, government is investigating the possibility of expanding the number of zero-rated items. The 2018 Budget also provided an above inflation increase in the value of social grants in order to compensate grant recipients for the impact of VAT.

5. **National Treasury should maintain fiscal discipline and rein in the ever-growing government debt, which depletes monies that should be earmarked for service delivery**

National Treasury agrees on the need to maintain fiscal discipline. In order to reduce the growth in government debt and interest costs (which crowds out funding available for service delivery), government is committed to a path of fiscal consolidation. As part of implementing this commitment, the 2018 Budget increased revenues and revises the expenditure ceiling down slightly.

## LIMPOPO

1. **The failure by municipalities to utilise funds allocated to them needs to be addressed. The framework for compensation of employees should be available in order to regulate salaries at municipal levels.**

The Department of Cooperative Governance regulates the salaries of senior municipal officials in terms of section 72(2A) of the Municipal Systems Act, 2000. The framework for determining the upper limits of municipal managers and managers directly accountable to municipal managers was published in Government Gazette No. 37500.

2. **Provincial government departments continue to have bloated personnel and that contributes to negative spending on personnel budgets. Provincial personnel management frameworks should be implemented in order to curb escalating costs of personnel against service delivery programmes.**

The Limpopo provincial government should note this recommendation.

3. **While it was noted that funds for Thabazimbi Municipality will be channelled through the District municipality, the implementation of the recovery plan through such funds needs to be closely monitored to ensure that there is accountability.**

National Treasury agrees on the need for all parties to perform closer monitoring of the use of these funds, including the key stakeholders, namely the district and the local municipality. In this regard, we expect monthly reports to be provided by the District to the Municipal Manager and Mayor of Thabazimbi Municipality on planning and spending against those plans. Although there is a financial recovery plan being implemented by Thabazimbi Local Municipality, it is the primary responsibility of the municipality and its council to monitor implementation of that plan. The financial recovery plan is being monitored by the Limpopo Provincial Treasury.

4. **The role of Provincial Treasury in managing transfer of mandates to municipalities needs to be thoroughly outlined in terms of legal prescripts to ensure proper costing on function shifts.**

In terms of Section 3(2A) of the Financial and Fiscal Commission Act, 1997, any function shift from a province to a municipality (or from national to a province or municipality) must be assessed by the Financial and Fiscal Commission (FFC), which must make recommendations on the proposed function shift. This check in the system is established to ensure that any proposed function shift is costed and the full impact on the municipality (or province) that will be performing the function in future are accounted for. The Financial and Fiscal Commission Act also requires that National Treasury be consulted, and in any function shift impacting provinces, the provincial treasuries would be consulted through the Technical Committee on Finance and the Budget Council.

The 2018 Division of Revenue Bill introduces a new provision to address underfunded mandates. Section 30(2) requires that provincial treasuries ensure that provincial budgets account fully for any agreements for a municipality to provide a service on behalf of a province. It is hoped that as this clause is implemented in the 2019/20 provincial budgets (after the 2018 Division of Revenue Bill has been adopted), it will lead to provinces fully funding municipalities for the services they provide on their behalf. Municipalities should only agree to provide services on behalf of another sphere if a Memorandum of Understanding or a Service Level Agreement has been signed that clearly stipulates what is being funded, the level and frequency of services and any conditions attached to such funding. This will assist in ensuring that provinces and municipalities also operate effectively, efficiently and economically.

5. **Low spending on conditional grants in some government departments is highly unacceptable and cannot be condoned.**

National Treasury agrees and does not condone underspending of conditional grants.

6. **Settling of debt owed to municipalities moves at a slow and undesirable rates and therefore such a financial misconduct must be addressed with the urgency it deserves.**

As was announced in the 2018 Budget Speech, National Treasury has issued a directive to all government departments and public institutions, instructing them to pay suppliers on time, or be charged with financial misconduct.

7. **Deviations on funding which had invested more on salaries as compared to services cannot be condoned as it compromises delivery of services.**

National Treasury shares the concern that some municipalities have increased their compensation of employees expenditure out of proportion with other, delivery-related, categories of spending. National and provincial treasuries are currently engaging with municipalities through the annual budget benchmarking process, and National Treasury has requested provincial treasuries to pay particular attention to those municipalities that have received increased allocations, in order to ensure that they budget to use additional funds for improving service delivery.

8. **Library services should be prioritised in terms of library grants and school sport should also be given the adequate allocations.**

The transformation of library infrastructure is funded through the Community Library Services Grant, with an allocation of R1.4 billion in 2018/19. School sports should be funded within the budgets of provincial education departments, and is also supported through the Mass Participation and Sport Development Grant, which is allocated R587 million in 2018/19.

9. **The visit by President Zuma to Siloam and Tshilidzini hospitals and his pronouncement of modern facilities upon realisation of the state of hospitals and the piloting of National Health Insurance still remain stagnant. This policy commitment and stagnancy cannot hold communities at ransom and National Treasury should reallocate the money to Limpopo Province for the erection of the two hospitals.**

   **Progress regarding the medical school that was supposed to have been built in the past 4 years by the National Department of Health should be reported because learners had since been admitted but nothing has been done or reported to date.**

The national Department of Health has compiled businesses cases for Siloam and Tshilidzini hospitals. Siloam Hospital has also recently undergone a gateway review in terms of the Standard for Infrastructure Procurement and Delivery Management. National Treasury and the national Department of Health are currently discussing these business cases, it is important that proper research and planning is done to avoid wastage, excessive costs and to ensure the correct distribution of services in Limpopo. For instance, in the case of Tshilidzini Hospital, National Treasury has noted significant differences between the 10-year infrastructure plan and the business case (e.g. Tshilidzini business case suggests 262 district beds and 294 regional beds are needed, while the 10-year infrastructure plan proposes 225 district beds and 536 regional beds, with no clear link between the facility's envisaged services and surrounding facilities including Siloam and Donald Fraser). Neither business case adequately examines the overall need and distribution of regional beds in the province, which partly reflects limited planning for hospital bed planning capacity in the national Department of Health. Once the planning processes have been completed, appropriate funding instruments can be considered.

Plans for the Limpopo Academic Hospital are also currently being revised, with a view to meeting the criteria needed to be eligible for funding of the project.

**10. The Minister of Water Affairs and Sanitation had since promised the connection of water from Nandoni Dam to Giyani at Mopani District but there is no delivery to date. Progress report must therefore be provided on the matter.**

After the Nandoni Dam was completed, it was expected that bulk water from the dam would be used to supply communities in the Mopani District Municipality's area of jurisdiction. Although there have been several delays in the implementation of these bulk supply projects, the Regional Bulk Infrastructure Grant is currently funding four bulk water supply projects in the Mopani District Municipality, with allocations totalling R332.9 million in 2018/19, R209 million in 2019/20 and R329.6 million in 2020/21 (all indirect allocations in Schedule 6, Part B).

The Department of Water and Sanitation reports that the Nandoni-Nsami bulk pipeline project faced several legal challenges when it was being implemented by Mopani District Municipality, including being declared void ab initio[1] by the Supreme Court. The Department of Water and Sanitation therefore decided in 2014 to complete the implementation of the project as an indirect grant, with Lepelle Northern Water as the implementing agent. The engineering design of the project was completed in 2015. A contractor was appointed in 2016. After delays due to problems with the payment of the appointed contractor, the contractor returned to site on 4 December 2017 (after all outstanding invoices were paid). The project is expected to take 24 months, but after all of the interruptions, a new expected completion date still needs to be determined.

In addition, Mopani District Municipality, which is the water services authority for the area, receives an allocation of R439.5 million in 2018/19 for water and sanitation infrastructure projects in the district through the Municipal Infrastructure Grant. These funds can be used to upgrade water and sanitation supply in the area.

**11. National departments that were getting disclaimers cannot be expected to assist provincial departments and that should be highly discouraged.**

This recommendation is noted.

**12. Road infrastructural developments taking place in the province were appreciated but were not enough. The Committee is of the view that before tollgates are introduced, roads of acceptable standards must first be constructed. Further that roads in Limpopo should be given priority like it is a case with other provinces.**

**A plea made by the Committee was that whenever a recognition of Musina-Makhado corridor has been made, SANRAL must expand the route the way it did with N1 from Limpopo to Gauteng. It was considered of importance to also consider a road infrastructure in Lephalale and Blouberg that connects the**

[1] The term void ab initio means "to be treated as invalid from the outset,"

**Musina-Makhado corridor and N1 to Gauteng for economic development purposes.**

**While investment trends in Limpopo are encouraging, the challenge remains viable transport networks for easy access to markets. The Committee therefore maintains that funds should be made available for speed trail from Johannesburg to Polokwane and Musina.**

As noted above (in the response to the Eastern Cape), National Treasury notes the concerns raised about the condition of provincial roads and will take these up with the national Department of Transport.

Investment in road infrastructure and maintenance is guided by road asset management best practices. This means that investment should be based on the capacity and traffic volumes (demand) on the different roads in the network. This means that South Africa's limited fiscal resources are targeted to those projects that will have the greatest impact. Both SANRAL's investments in the national road network and provincial activities funded through the Provincial Roads Maintenance Grant are based on these principles.

The Division of Revenue Bill allocates R3.4 billion over the 2018 MTEF for Limpopo roads through the Provincial Roads Maintenance Grant. This is a supplementary grant that the province must use to supplement provincial investments for road infrastructure maintenance (routine, periodic and special maintenance). It is thus the responsibility of the province to utilise such funding effectively and efficiently in support of economic opportunities such as the respective corridors mentioned.

Over and above this, the budget provides significant funding for the South African National Roads Agency (SANRAL) non-toll network. Some of these roads, which are funded through SANRAL's non-toll portfolio, are in and around the mentioned corridors (Lephalale-Blouberg-Makhado-Musina) including; the R510, N11, R521, R523, among others.

Tolls are used to pay for upgraded roads, so National Treasury agrees that these must be maintained at an acceptable standard.

13. **The Committee urged the National Treasury to be combat ready for any drought or negative climatic conditions that the province might face. This could be achieved if the current rain harvesting mechanisms are supported than it is currently happening. In this regard, the Committee recommended that there is a need to move with speed in building and upgrading existing dams around the province rather than to wait for disasters to strike.**

The assessment of water resource infrastructure needs is the responsibility of the Department of Water and Sanitation. They perform reconciliation studies on each area of the country to ensure that the capacity of the water infrastructure in that region is sufficient to meet demand under various climate and demand scenarios, which include accounting for drought and population growth. Investment in water infrastructure across the country will be guided by needs identified through these technical studies.

14. **The Committee is aware that President J. Zuma piloted Muyexe as a presidential nodal point but was concerned that there has not been sufficient reporting regarding progress on achievement of targets set for the project. It would be appreciated if the National Treasury interacts with the relevant institutions to ensure that the project is given the necessary attention and targets set for the project are achieved without failure.**

This recommendation will be shared with the Department of Rural Development and Land Reform.

15. **Funds that are surrendered by municipalities to National Treasury were raised as a matter of concern. While the Urban Development Grant allocation for Polokwane Municipality was appreciated, National Treasury should find a way to balance allocation against expenditure and thereafter appropriate funds accordingly.**

National Treasury shares the Committee's concern regarding underspending on conditional grants. Polokwane is participating in a new window of the Municipal Infrastructure Grant in 2018/19 that is being used to pilot the approach that is likely to become a new Integrated Urban Development Grant from 2019/20. This new approach is being paired with capacity support to the municipality provided through the Integrated Urban Development Framework managed by the Department of Cooperative Governance. This should help to ensure that the municipality is able to spend the funds that it receives.

16. **Given the unemployment rate in the country, EPWP grants should be utilised in a way that allows for durable jobs.**

The Expanded Public Works Programme (EPWP) is intended to provide mainly short term employment opportunities, with the intention that with the skills and experience gained through the EPWP, participants will be better able to find employment opportunities elsewhere. This allows a larger number of people to participate in, and benefit from, the EPWP over time. Although the need for more durable jobs is recognised, the EPWP is not the appropriate way to create permanent job opportunities.

17. **The guidelines at schools which require that school governing bodies should be involved in the appointment of service providers pertaining the NSNP are not welcomed since they cause conflicts in schools and should therefore be revisited to mitigate the anomalies thereof.**

This recommendation will be shared with the Department of Basic Education for their attention. However, on the oversight and appointment of services providers, SGBs are not to work in isolation. The school management team, NSNP coordinators from the provincial department as well as a governance team from the district offices monitor and support SGBs in fulfilling their roles in appointment of service providers. The Office of the Chief Procurement Office will also be asked to explore whether there are any concerns regarding the role of SGBs in procurement.

18. **The Committee was concerned about the targets previously set by Agriculture to establish and rehabilitate agricultural infrastructure facilities. It was found that if farms like Zebediela citrus and Makgobaskloof were operating to the expected standards, poor people would not be adversely affected. It was therefore recommended that targets as aforementioned should be reviewed and that the progress that was made in the past 3 to 4 years be assessed against the value for money allocated to such targets.**

This recommendation will be shared with the Department of Rural Development and Land Reform, and the Department of Agriculture Forestry and Fisheries.

19. **Having recognized the poverty levels in both Limpopo and Eastern Cape Provinces, the Committee emphasized a need for demonstrative effort to develop action-oriented plan to develop those provinces.**

National Treasury note this recommendation. The high poverty levels in these provinces are taken into account in the determination of allocations through the Division of Revenue Bill. As a result these provinces get higher per capita transfers than most other provinces, and municipalities in these provinces receive higher per household transfers. This recognises the higher levels of reliance on government services in these provinces, and the limited ability of many municipalities in the Eastern Cape and Limpopo to raise own revenues. These provinces also benefit from several actions to promote development, including special economic zones; major infrastructure investments (e.g. dams in Limpopo, the planned new N2 on the Wild Coast, and school upgrading); the development of agri-parks; and the promotion of tourism.

**20. A comprehensive plan to empower the Department of Education's infrastructure unit should be given a serious attention as non-qualification for incentive grants compromises service delivery.**

National Treasury shares the committee’s concern that the performance of the Limpopo Department of Education’s Infrastructure unit needs to improve. The department participated in a capacity building programme managed by National Treasury, the Infrastructure Delivery Improvement Programme, for more than a decade, so there has been no shortage of support to the province. The Education Infrastructure Grant also provides for up to R45.1 million from the grant to be used to hire public servants in the department’s infrastructure unit, so there is no shortage of funding available. One of the main reasons the department failed to qualify for an incentive for 2018/19 was their failure to submit some of the required documents (Infrastructure Programme Management Plan and Construction Procurement Strategy), despite being reminded to do so. The National Treasury together with the national Department of Basic Education conducted a central recruitment process in 2014/15 to assist the Limpopo Department of Education in fast tracking the appointment of officials in their infrastructure unit. However, not all officials recommended were appointed. In 2017/18 the national Department of Basic Education has again initiated a process to assist the department to fast track the capacitation of their infrastructure unit. It is imperative that the executive authority support and monitor the process closely, and assist where there are blockages in the capacitation process for the Department of Education. The appointment of officials within the infrastructure unit will assist to improve the planning, implementation and monitoring of infrastructure services.

## NORTHERN CAPE

**1. Although more funds have been allocated to poorer municipalities, a proper analysis should be done of the Northern Cape in order to address the challenges that are prevalent in the poorest areas.**

National Treasury agrees that an improved understanding of the challenges in the poorest municipalities is needed. This applies not only to the Northern Cape, but to other provinces as well, especially as any changes to assist poorer municipalities would have to be available in all provinces. National Treasury has commissioned a study to look at the challenges of rural municipalities. If the Northern Cape province wanted to commission a study to better understand conditions in their province, that would also be supported.

**2. More stringent measures should be regulated to ensure that Departments do not underspend on the allocated grants.**

National Treasury shares the committee's concern about underspending on conditional grants. The rules set out in the Division of Revenue Bill already require that departments submit business plans that show how allocated grant funds will be spent in full during that financial year. Spending and service delivery during the financial year is then measured against these plans (sections 11 and 12). The Bill then provides stringent measures that can be implemented if provinces are underspending, including withholding transfers (section 18), or even stopping and reallocating funds if a province is not able to show that they will be able to spend the allocated funds in compliance with the purpose and rules of the grant (sections 19 and 20). There is scope to substantially improve accountability for the performance of provincial departments in implementing grants, as well as for national departments in monitoring performance against the grants that they transfer.

3. **Some municipalities' spending of grants is not efficient and requires an adequate cooperative approach from all relevant stakeholders to ensure viability of these municipalities.**

National Treasury agrees that a cooperative approach is needed to improve the efficiency of municipalities. Stakeholders at all three spheres need to take accountability for performing their functions in monitoring and supporting the implementation of conditional grants (as discussed above). This can help to improve the viability of municipalities in delivering their grant funded mandates.

4. **Unfunded mandates of municipalities are a concern and a process will have to be introduced to monitor their audit recovery plans.**

The 2018 Division of Revenue Bill introduces a new provision to address underfunded mandates. Section 30(2) requires that provincial treasuries ensure that provincial budgets account fully for any agreements for a municipality to provide a service on behalf of a province. It is hoped that as this clause is implemented in the 2019/20 provincial budgets (after the 2018 Division of Revenue Bill has been adopted), it will lead to provinces fully funding municipalities for the services they provide on their behalf.

Municipalities should only agree to provide services on behalf of another sphere if a Memorandum of Understanding or a Service Level Agreement has been signed that clearly stipulates what is being funded, the level and frequency of services and any conditions attached to such funding. This will assist in ensuring that provinces and municipalities also operate effectively, efficiently and economically.

Audit action plans for municipalities are being monitored by provincial treasuries on a regular basis. Provincial legislatures can request their provincial treasuries and the municipalities to report progress on these action plans to the legislature, quarterly. One of the conditions of the Local Government Financial Management Grant requires the development and implementation of audit action plans. The National Treasury and provincial treasuries will be prioritising action plans for those municipalities with a disclaimer and adverse audit findings.

5. **Stringent measures should be put in place to address debt owed to municipalities by Departments.**

The process to address historic debts owed to municipalities is led by the Department of Public Works. This process has verified R4 billion in historic debt, of which R1.6 billion was settled by the end of December 2017. National Treasury is committed to ensuring that the issue of intergovernmental debts is resolved. This includes a letter from National Treasury's Director-General which has issued a directive to all government departments and public institutions, instructing them to pay suppliers on time, or be charged with financial misconduct.

**6. Contingent liabilities of certain departments are not provided for and should be addressed.**

This will be shared with the Northern Cape Provincial Treasury so that they can address the contingent liabilities of provincial departments in the provincial budget.

**7. The review of the current way government does provincial allocations of the equitable share in order to assist struggling provinces like the Northern Cape should be expedited.**

National Treasury is leading a review of the provincial equitable share formula, in collaboration with provincial treasuries and other stakeholders. The first changes as a result of this ongoing review are already implemented in the formula for the 2018 MTEF. This change has meant that more accurate data on learner numbers is now being used to determine allocations to provinces. The review will continue in 2018/19 and the Financial and Fiscal Commission will be hosting a colloquium on rural issues during 2018.

**8. There should be efficient management of the spending of Municipal Infrastructure Grants at municipalities and ensure that it is used for the intended purposes.**

National Treasury agrees on the need for efficient management of the Municipal Infrastructure Grant (MIG). The Department of Cooperative Governance (DCOG) is the transferring officer for the MIG and is working to improve the efficiency of its management and implementation, including the grant management interventions mentioned above (in response to question 2). The DCOG has improved their internal capacity to monitor the MIG, together with provincial departments for cooperative governance. The MIG also includes a provision for municipalities to use funds from the grant for their own project management units to ensure they have capacity to oversee the implementation of grant funded projects. DCOG is currently working to review the rules for these project management units to improve their effectiveness. DCOG also makes targeted capacity support available to municipalities through the Municipal Infrastructure Support Agent (MISA).

## NORTH WEST

*Recommendations addressed specifically to the North West Department of Finance are not repeated here.*

**1. National Treasury must monitor the expenditure of implementation of the roads maintenance grant.**

As noted in the responses to other provinces above, National Treasury has noted the concerns raised regarding road maintenance and will take these up with the national Department of Transport to address the concerns raised. National Treasury and the national Department of Transport will also closely monitor the implementation of the grant.

**2. National Treasury must monitor funding of health care services in the province is used accordingly.**

This recommendation is noted. National Treasury is aware of the challenges in the province's health care sector and will pay close attention to this section in its monitoring of the province.

3. **The Committee recommends that the clause in the Bill that allows municipalities to borrow money from National Treasury, be closely monitored as there are municipalities that are already performing badly financial, it could increase their financial deficits.**

The Division of Revenue Bill does not allow municipalities to borrow from National Treasury. Municipalities can however borrow funds from banks and other lenders in terms of the Municipal Finance Management Act (MFMA). The MFMA only allows municipalities to engage in long-term borrowing for infrastructure investments, so municipalities are not allowed to borrow to increase a deficit on their operational budgets.

Changes to section 8 of the Division of Revenue Bill, 2018, improve the alignment of this Bill with the MFMA. It removes the approval of pledging over the medium term, thereby allowing credit-worthy municipalities to account for grant funds in their borrowing over the longer term. Municipalities that are not credit-worthy will not be able to borrow. National Treasury agrees that borrowing must be closely monitored. In addition to the monitoring mechanisms already provided for in the MFMA, section 8 of the Division of Revenue Bill, 2018, also enables National Treasury to prescribe reporting requirements when grant funds are borrowed against.

4. **National Treasury put in place systematic regulations before transferring appropriation to Ngaka Modiri Molema District Municipality.**

National Treasury is closely monitoring this municipality together with the Provincial Treasury and provincial Department of Cooperative Governance and Traditional Affairs. Grants to the municipality are only transferred on receipt of invoices that show that the funds are needed for expenditure that complies with the conditions of the grants.

**The Committee has noted the reduction of the EPWP grant, skills and training be afforded to people so that they can continue to sustain themselves, in turn alleviating poverty.**

National Treasury agrees that the EPWP plays a valuable role in providing income, skills and work experienced to unemployed South Africans. Reductions to EPWP grants were therefore kept to a minimum.

5. **The Committee strongly recommends that the national Department of Transport revitalise the rail system in North West province, allowing the transportation of goods and thereby decreasing the number of trucks on provincial roads.**

This recommendation will be shared with the national Department of Transport.

6. **National Treasury look seriously into the matter of affording the North West Province a limestone, cement, platinum and coal haulage grant.**

National Treasury acknowledges that road infrastructure damage as a result of increased mining, agricultural and industrial activity requires a systematic change to the functional classification and assignment of the road network. The issues highlighted in the recommendation are not unique to the North West province, and it is important for a country-wide approach to be taken. National Treasury has asked the national Department of Transport to undertake a new road network study to review the current classification system and to update the freight logistics strategy to ensure that there is alignment between new development and the infrastructure required to support that. Attached to this is a broader issue of who should pay for the damage caused. Government policy, as set out in the White Paper for Transport Policy, states that where feasible, road users should pay for the damage they cause to infrastructure. National Treasury will also take this issue up with the national Department of Transport as part of the broader discussion about the condition of provincial roads.

7. **The Committee requests that National Treasury look into the concept of food stamps, like in the United States of America, as a mechanism to lessen the burden of VAT increase on poor people.**

The Minister of Finance has appointed a panel, chaired by Professor Ingrid Woolard, to "review the current list of VAT zero-rated items and consider the most effective way to mitigate the impact of the increase in VAT on poor and low income households." The panel is expected to deliver its initial report by 30 June 2018.