**3. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE EARLY CHILDHOOD DEVELOPMENT GRANT EXPENDITURE AS AT FOURTH QUARTER 2017/18 FINANCIAL YEAR, DATED 22 AUGUST 2018**

 **1. Introduction**

The Select Committee on Appropriations (the Committee) invited the Department of Social Development, National Treasury, the Eastern Cape, Northern Cape and North West Provincial Departments of Social Development to make presentations on the Early Childhood Development Grant’s fourth term financial expenditure for the 2017/18 financial year. The Committee meeting took place on 16 May 2018.

**2. Terms of reference**

The hearing formed part of the Committee’s ongoing interaction with departments to monitor their spending patterns on conditional grants allocated to them. A framework for the grant sets out the purpose of the grant, measurable objectives, conditions, allocation criteria, and past performance, among other things.

The departments were requested to make an oral presentation on the Early Childhood Development Grant with specific focus on fourth quarter expenditure.

**3. Submission by National Treasury on ECDG expenditure and performance**

As a background, the National Treasury (Treasury) submitted that the Early Childhood Development Grant (ECDG) plays a critical role in preparing a child to thrive in primary and secondary school. Early Childhood Development (ECD) comprises of cognitive, emotional, physical, mental, communication, social and spiritual development of children. Also, ECD has the potential to reduce the number of times a child repeats grades at advanced school levels and minimises school dropout rates.

Given the inadequate provision of ECD services, particularly amongst poor households, a National Integrated Plan was adopted as a policy in South Africa in 2005 to ensure that each child has access to ECD services even if their parents or caregivers cannot afford it. The National Integrated Early Childhood Development Policy, which gave effect to the introduction of the ECDG, was approved by Cabinet in 2015. The ECDG was then established in the 2017/18 financial year to extend access to ECD services to all South Africa’s children.

Treasury reported the purpose of the ECDG as to increase the number of poor children accessing subsidised ECD services through partial care facilities through a subsidy component; and to assist existing conditionally registered partial care facilities providing an ECD programme to meet basic requirements in order to attain full registration through a maintenance component. The ECDG outputs were reported by Treasury according to its components. The positive achievement under the subsidy grant component will be measured through the number of poor children that benefit from ECD services that are subsidised, the number of days subsidised and the number of children attending ECD services in registered centres.

Treasury added that the success of the maintenance component will be measured through the number of ECD centres conditionally registered as per the registration framework, the number of ECD centres assessed for the maintenance component and the number of centres that moved from conditional registration to full registration as a result of the maintenance component.

With respect to the ECDG spending as at 31 March 2018, Treasury reported that out of R56.4 million allocated to the Eastern Cape Province, only R27.7 million (48.6 percent) was spent. Whilst the Free State Province was allocated R18.4 million, only R12.7 million (68.8 percent) was spent. Of the R38.5 million allocated to the Gauteng Province, a total of R35.9 million (93.4 percent) was spent. Whereas the KwaZulu-Natal Province was allocated R71.9 million, the province spent R59.3 million ((82.6 percent). The Province of Limpopo was allocated R41.1 million and spent R36 million (87.7 percent). Treasury further reported that the Mpumalanga Province was allocated R25.8 million and spent it all. Whereas the Northern Cape Province was allocated R13.8 million and spent R14.4 million (104 percent), the North West Province was allocated R32.7 million and spent only R20.3 million (62.1 percent), and lastly, the Western Cape Province spent all the allocated funds, R19.1 million (100 percent).

On children subsidy component, Treasury reported that the Eastern Cape Province targeted 11 047 children but actual beneficiaries were 8 420 for 209 days; Free State Province targeted 2 085 and the actual beneficiaries were 2 084 for 264 days; Gauteng Province targeted 8 818 and the actual beneficiaries were 9 079 for 264 days; the KwaZulu-Natal Province targeted 14 614 beneficiaries and reached them all; the Limpopo Province targeted 7 601 and reached 9 414 for 215 days. The Mpumalanga Province targeted 4 625 beneficiaries and reached them all over 264 days; the Northern Cape Province targeted 910 beneficiaries and reached 1 221 over 264 days; the North West Province targeted 6 631 beneficiaries and reached 6 632 over 248 days; and the Western Cape Province targeted 4 151 beneficiaries and reached 4 265 over 264 days.

On ECD centres upgraded or maintained, Treasury reported that the Eastern Cape Province targeted 96 ECD centres, of which none benefited; in the Free State Province all the 79 targeted were upgraded or maintained; also in the Gauteng Province all the 16 ECD centre targeted, were upgraded or maintained; the same was reported to have occurred in KwaZulu-Natal (117), Limpopo (96), Mpumalanga (62), Northern Cape (65), and Western Cape Province (13) - all targeted ECD centres were upgraded or maintained; out of 46 targeted ECD centres in North West Province, only 10 were upgraded or maintained.

Treasury reported the following challenges with the maintenance component of the ECDG:

* Late conclusion of the Service Level Agreements (SLAs) between provincial departments of Social Development and ECD centres.
* Some provinces were reported to be subsidising ECD centres for fewer than the recommended 248 days per annum, arguing that they were doing so to extend services even though actual number of children benefitting was much less than the target.
* Late appointments due to delays in the recruitment process and some appointments were made as late as December 2017.
* Overall, the appointment of staff to manage the ECDG in provinces has been slow. This made the management of the Grant with the existing poor capacity in infrastructure units difficult.
* Delays in the supply chain management processes for the appointment of contractors. Some contractors were only appointed in September 2017.
* The R100 000 limit per ECD centre for maintenance costs is not sufficient in some instances, due to high quotations received from contractors. (This has since been increased to R180 000 with effect from the 2018/19 financial year)

Treasury reported that overall 79 percent of the ECDG was spent and, given the appointments made, performance would increase going forward and the outstanding SLAs would also have to be finalised.

**4. Submission by the National Department of Social Development**

The National Department of Social Development (NDSD) reported that in order to enhance the implementation of the ECD policy, the Treasury allocated R317.6 million for the 2017/18 financial year for the benefit of qualifying children from birth to 5 years or until they enter Grade R. For the subsidy component, the value of the subsidy paid for each child for 264 days per annum was R15. The maximum value of R100 000 for maintenance improvements had to be approved by the chief financial officers and the heads of departments.

Financial allocation to the invited provinces was reported by NDSD as R56.365 million (Eastern Cape) divided into subsidy (R43.749 million), maintenance (R11.148 million) and administration (R1.466 million) components. The Northern Cape Province was allocated R13.761 million divided into subsidy (R3.605 million), maintenance (R8.056 million) and administration (R2.100 million) components. The North West was allocated R32.686 million, divided into subsidy (R26.258 million), maintenance (R4.465 million) and administration (R1.961 million) components.

The NDSD confirmed that the North West Province only maintained 10 out of the 48 targeted ECD centres. The NDSD submitted that the province had reported that this had been due to the industrial strike action by public servants. With respect to the Eastern Cape, the NDSD submitted that the province had reported delays in the recruitment process of construction project managers and project managers as impacting negatively on the performance of the grant because these technical skills were required. The appointment of two project managers was finalised in November and December 2017, respectively, after project assessments were received from the Eastern Cape Department of Public Works. Projects were delayed further because the Bills of Quantities were only compiled by the project managers in December 2017 and January 2018.

**5. Submission by the Eastern Cape Department of Social Development**

As a way of providing a background, the Eastern Cape Department of Social Development (ECDSD) stated that the Children’s Act No 38 of 2005 requires that ECD centres be registered as partial care facilities. The ECDSD added that, up to March 2016, 576 ECD centres were conditionally registered because they could not obtain full registration due to non-compliance to applicable minimum norms and standards. In the 2017/18 financial year, the ECDSD was allocated conditional grant funds for the employment of three officials with building and technical capacity and a single administrative clerk, for maintenance of 180 ECD centres and goods and services.

Key guidelines for the maintenance component of the Grant were reported by the ECDSD as ensuring that partial care facilities offering ECD programmes registered conditionally, are eligible for the maintenance grant. Also expected was that funding was to be provided for minor building and maintenance improvements aimed at ensuring ECD centres complied with the health and safety norms and standards, as identified by the national Department of Social Development. The ECDSD explained that R100 000 is the maximum value to be spent per ECD centre for maintenance improvements, with an option to obtain approval for an amount limited to 30 percent. According to the ECDSD, provinces were to conduct assessments of conditionally registered centres and cost them in order to qualify for maintenance grant funding in the 2017/18 financial year. Moreover, all ECD centre maintenance projects had to be recorded on the National Treasury Infrastructure Reporting Model (IRM).

The actual allocation for the maintenance component of the ECDG for the 2017/18 financial year was reported to be R10.264 million. That is R2.628 million transferred in the second quarter and R7.886 million transferred in the fourth quarter. None of these funds were spent and the ECDSD reported that an application for a roll-over for the full amount was submitted to the Eastern Cape Provincial Treasury in April 2018. These funds are earmarked to be used for tenders that are still in process from the 2017/18 financial year. With regard to the administration component, actual expenditure was R322 600.44, of which R79 400 and R246 200.22 were spent in the third and fourth quarters, respectively.

The submission of the ECDSD indicated that the recruitment for the positions of quantity surveyor and two project managers had some challenges as they were only received from the Provincial Coordination and Monitoring Team (PCMT) on 20 April 2017. The approved positions were for 12 month-contracts in compliance with Public Service Regulations 2016, as issued by the Minister of Public Service and Administration. The position of quality surveyor was not filled at the first attempt. The National Department of Social Development (NDSD) was informed in June 2017, according to the ECDSD, of the challenges that were experienced as a result of the short term nature of the contract for the quantity surveyor. The NDSD revised the title of the quantity surveyor to construction project manager, according to the ECDSD. After provincial approval processes were completed, the PCMT sent an approval on 20 November 2017 for the post to be advertised as a 12 month-contract whose closing date was on 16 February 2018. With respect to the two positions of project managers, the appointed candidates assumed duties in November and December 2017 respectively, and the administrative assistant was to be appointed in May 2018.

With respect to the ECD maintenance component, the ECDSD reported that the list of ECD centres for maintenance for the 2017/18 financial year was approved within the Department on 30 March 2017. The slow progress of recruitment reported above led the Department to approach, in September 2017, the Eastern Cape Department of Roads and Public Works (ECDRPW) to perform a technical assessment of the 180 ECD centres. The ECDSD reported that the assessments from ECDRPW were only received in November and December 2017. Whereas the bills of quantities were then compiled from the assessments by the newly appointed project managers in December 2017 and January 2018. The next phase that was performed was the tendering process. The ECDSD reported that the supply chain management process was initiated for the Phase 1 tender, which involved advertising for tender maintenance of 63 ECD centres on 02 February 2018 and closed on 05 March 2018. Phase 2, which was for maintenance of 11 ECD centres, was advertised on 23 February 2018 and closed on 26 March 2018.

Even the maintenance component of the grant experienced some challenges, especially during the supply chain management process phase. The ECDSD reported that the Business Forum in Alfred Nzo District, which fell in Phase 1, raised issues during the two tender briefing sessions. This resulted in the cancellation of the tender. Another tender for the Buffalo City Municipality (which was also part of Phase 1) was also cancelled due to the fact that some of the centres that were on the 2017/18 financial year master list had already benefited in the previous financial year. The ECDSD also added that ownership of the ECD centres were only obtained from 79 centres, which meant only 79 could be tendered for maintenance.

**6. Submission by the North West Department of Social Development**

The North West Provincial Department of Social Development (NWDSD) reported that from its equitable share allocation in the 2017/18 financial year, R52.6 million was allocated for subsidies to non-profit organisations running ECD programmes and R46 million (88 percent) was spent as at the end of the financial year. Achievements included funding of 291 ECD centres and a total of 15 145 children subsidised. The NWDSD submitted that the ECDG expenditure was low compared to the previous years due to the public service strike action which started in January 2018. This had a negative impact on payment of subsidies during the fourth quarter.

The NWDSD also submitted that in the 2017/18 financial year, the objective was to provide access to ECD services to 6 632 children from low income households. Another objective was to improve the infrastructure of 45 conditionally registered ECD centres providing ECD programmes in order to assist them to attain full registration.

With respect to ECDG allocation, the NWDSD reported that the allocation was R32.686 million for the 2017/18 financial year. This was divided into the three components as follows: R4.466 million for maintenance; R26.258 million for subsidy expansion and R1.961 million for administration. The NWDSD reported that actual expenditure on the maintenance component as at 31 March 2018, was R1.056 million, this was spent on 11 ECD centres from a target of 45; meaning that R2.377 million was not spent. Commitments already made include issued purchase orders to 11 service providers and a roll-over application for R1.034 million was made.

Regarding the subsidy component, the NWDSD reported that from the allocated R26.259 million, R18.048 million (68.7 percent) was spent on subsidising 178 ECD centres against a target of 155; as well as to subsidise 4 490 children for 248 days per annum (instead of 264 days) against a target of 6 632, as at 31 March 2018. Overall, the subsidy component was under-spent by R8.211 million and the province has made an application for a roll-over to this amount, which would be used to make retrospective payments. With respect to the administration component, the NWDSD reported that R1.197 million was spent from the allocated R1.961 million as at 31 March 2018, leading to an under-spending of R764 362.00 due to the late appointment of a project team, which occurred only in the third quarter of the 2017/18 financial year.

As this is a new grant, the NWDSD also reported that lessons were learnt during implementation in the 2017/18 financial year. These included that ECD centres in deep rural areas where there is no water reticulation and sanitation facilities require more funds. The province submitted that this would be improved through selection of minor maintenance projects (Category A) during the 2018/19 financial year in order to comply with the grant conditions and further include Category B projects in the business plan for the 2019/20 financial year. The NWDSD added that another lesson was that some service providers charge government exorbitant amounts. As such the department, going forward, would assess the market price in order to estimate the cost of prioritised centres and negotiate reasonable prices with service providers.

Also added as a lesson was that the delayed supply chain management processes lead to under-spending and poor performance. The NWDSD assured the Committee that for this financial year, the supply chain management processes would be finalised by end of June 2018, a database of eligible service providers would be developed for 2019/20 during the 2018/19 financial year. The NWDSD also added that another proposed mitigating factor is the provision of budget for ECD maintenance from Goods and Services to transfer payments during the 2019/20 financial year, including transferring funds to conditionally registered ECD centres during the 2019/20 financial year and intensifying monitoring and support of the funded organisations.

With respect to lessons learnt within the ECD subsidy component, the NWPDSD reported that there is a need for uniformity and/or equal treatment in the Social Development sector. This could be improved through aligning the equitable share subsidies framework to the conditional grant framework, for example ensuring that 264 days are applicable to all ECD centres. On the administration component, the NWDSD submitted that there was a need for adequate human resources to ensure successful management of the ECDG project management. The province reported that the appointment of the two works inspectors will be finalised by end of July 2018.

**7. Submission by the Northern Cape Department of Social Development**

The Northern Cape Department of Social Development (NCSD) reported on the status of ECD services in the province. According to Statistics South Africa, there were 125 512 children in the 0-4 age group over the five districts; with a total of 17 079 currently accessing ECD services. The NCSD further reported that a total number of 359 ECD centres was being funded, with a total amount of R67.7 million subsidies was paid from the equitable share in the 2017/18 financial year.

The NCSD further reported the following challenges affecting the delivery of ECD services in the province:

* In the province, 2 percent of the country’s population is scattered across almost 30 percent of the geographical area of the country.
* There are deep rural communities with limited infrastructure and services.
* There are a limited number of qualified service providers in the province.
* The vast distances affect regular monitoring and support of ECD services.
* Transport of materials and service providers is a major cost driver in the improvement of infrastructure.

With regard to the criteria for sites to benefit from the Grant in 2017/18, the NCSD reported that the centres selected had already been conditionally registered as Silver or Bronze (40 to 79 percent compliant). The grace periods of three to five years for upgrading of structures were due to expire, and assistance was needed to improve registration status to Gold. The NCSD further reported that, in many cases, these centres were the only ECD facilityin the particular community and therefore could not afford to be closed down due to non-compliance. In most cases improvements needed were urgent, as it had a serious impact on the quality of education but also on the health and safety of the children. The NCSD indicated that these centres were not benefitting from any donor funding.

The NCSD also reported that the following areas were prioritised for immediate attention at identified ECD sites 2017/18:

* Infrastructure endangering the lives of children, such as crumbling walls and unsafe roofing.
* All electrical and wiring issues, focussing on connecting electricity supply safely to ECD sites and improving all wiring in ECD buildings to comply with safety standards.
* Upgrading of toilets from pit latrines to a French drain system in areas where toilets could not be connected to the municipal sewerage system.
* Connecting water supply to ECDs to ensure safe and clean water for children and practitioners.
* Fencing of sites to restrict access and ensure the safety of children.

With regard to the maintenance component of the Grant, an amount of R8 million was allocated in the 2017/18 financial year (for maintenance and repairs to infrastructure to the maximum value or R120 000 per site for 65 sites). From this, R6.4 million was spent, as well as a further R3.5 million from the equitable share; resulting in a total of R9.9 million spent on completing a total of 59 sites. The NCSD reported the following reasons for the deviation:

* The poor state of ECD infrastructure resulted in the cost for repairs and maintenance exceeding the allocated R100 000 to R130 000 per site.
* Vast distances resulted in much of the allocated funds being spent on transport costs, therefore less was available for materials and labour.
* Top-up funding of R3.5 million from the equitable share was utilised in order to complete repairs to identified ECD centres.
* Some payments being done from the equitable share, and not the Grant allocation, resulted in under-spending on the conditional grant allocation.

In order to address some of the above challenges, the NCSD reported that clear instructions would be issued to the district finance units, regarding the separation of payments from the Grant from those done from top-up funding.

With regard to the subsidy component, there was no deviation, as the whole allocation of R3.6 million was spent in the 2017/18 financial year. However, the administration component was allocated R2.1 million, of which only R1.7 million was spent. The NCSD explained that this had been due to limited qualified professionals being available to fill posts as quantity surveyors and project managers, delaying appointments. The four officials only assumed duty in August 2017. The appointment of a service provider to render quantity surveyor services was less expensive than appointing an official in the post.

In conclusion, the NCSD reported that from the total Grant allocation of R13.8 million for the 2017/18 financial year, R11.7 million had been spent; with 2 974 children benefitting from the maintenance component and 1 221 benefitting from the subsidy component.

**8. Observations**

Having considered the submissions by the two national departments and the three provincial departments, the Committee observed the following:

8.1 Even though one of the conditions of the Early Childhood Development Grant provides the value of the subsidy component of the grant at R15 multiplied by annual number of working days (264), some provinces sign Service Level Agreements with Early Childhood Development centres that provide subsidising for fewer days.

8.2 Regardless of location and disability, children were only being subsidised to the value of R15 multiplied by 264 days per annum. Moreover, the maximum amount for maintenance of an ECD centre project was R100 000, irrespective of actual project costs.

8.3 Provinces are experiencing challenges within their supply chain management units and as such tendering processes were never completed on time. In addition, there appears to be a limited number of suitable service providers for ECD centre maintenance projects.

8.4 The Eastern Cape and North West Provinces had under-spent on the ECDG due to late appointment of officials and industrial action which meant service providers were either not appointed on time and/or late payments were made to service providers.

 8.5 At operational level there are still challenges with respect to the Intergovernmental Relations Framework. This observation transpired on reports that cooperation among the provincial departments in terms of sharing scarce/technical skills or assisting where there is a need still needs to be strengthened to enhance provision of services to the needy.

8.6 There might be a need to consider developing minimum standards for ECD centres and further realisation that a blanket approach in term of project specifications and costs may need to be reconsidered as material prices vary.

8.7 The Social Development sector is experiencing challenges regarding handling and implementation of infrastructure maintenance projects, as they need technical expertise.

8.8 The Committee noted with concern that failure by the provincial departments of Social Development to spend the ECD Grant as expected, may lead to a complete withdrawal of the Grant by the National Treasury and this may have unintended consequences for the objectives of the Grant.

8.9 The Committee noted the Minister for Social Development and the absence of the Eastern Cape MEC for Social Development.

**9. Recommendations**

Having highlighted the observations that emanated from the interaction with invited stakeholders, the Select Committee on Appropriations recommends the following:

9.1 National Treasury and the national Department of Social Development should regularly review the **ECD Grant child subsidy component** and the **infrastructure allocation** amounts, taking into consideration the fact that a “one size fits all” approach does not always work. Rural provinces have historical infrastructure backlogs.

9.2 In implementing the **infrastructure component** of the Grant, the provincial departments of Social Development should develop plans to intervene to ensure the health and safety of the children.

9.3 The Committee urges the provincial treasuries and the national Department of Social Development to do quarterly assessments of grant spending and performance and hold the respective implementing agents accountable for poor performance.

9.4 The National Treasury, the national Department of Social Development and the relevant provincial treasuries should provide comprehensive support and assistance to the **Eastern Cape and North West provinces** in particular, to address challenges related to ECD Grant implementation. The Committee wants feedback on progress made within three months from the adoption of this Report by the House.

9.5 Provinces should work together, in the spirit of **Cooperative Governance and** **Intergovernmental Relations,** and learn best practices from each other to ensure that the ECD Grant achieves its intended objectives and outcomes. Improved relationship and collaboration with the Department of Basic Education, National and Provincial Treasuries, the national Department of Social Development and the respective local municipalities would facilitate implementation of the Grant.

9.6 The provincial departments of Social Development need to improve planning and budgeting for the ECD Grant. In instances where there are **funding challenges,** provincial departments should consider using their equitable share allocation and engaging with the Financial and Fiscal Commission to make recommendations to the Minister of Finance.

9.7 The provincial departments of Social Development should work together with the Department of Basic Education through the ASIDI Programme and the Public Works Department, to avoid duplication of functions in eradicating mud structures and improve the criteria for identifying structures for infrastructure development of ECD centres.

Report to be considered.