**4. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE EDUCATION INFRASTRUCTURE GRANT EXPENDITURE AS AT FOURTH QUARTER 2017/18 FINANCIAL YEAR, DATED 22 AUGUST 2018**

 **1. Introduction**

The Education Infrastructure Grant (EIG) is a Schedule 4 grant which supplements provincial allocations. However, it has been noted that over the past few years, provincial contributions have been dwindling, with some provinces relying almost entirely on grant funding.

The purpose of the EIG is to -

* Help accelerate construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in education including district and circuit accommodation;
* Enhance capacity to deliver infrastructure in education;
* Address damage to infrastructure; and
* Address achievements of targets set out in the minimum norms and standards for school infrastructure.

The Committee invited the Department of Basic Education (DBE), National Treasury and the provincial departments of education of Gauteng, Mpumalanga and Western Cape to make presentations on the Education Infrastructure Grant’s fourth quarter performance for the 2017/18 financial year, at a meeting on 30 May 2018. In addition, the DBE was requested to provide a progress report on the Accelerated School Infrastructure Delivery Initiative (ASIDI) Programme, specifically the performance of the Education Infrastructure Backlogs Grant, since inception.

**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 its purpose, measurable objectives, conditions, allocation criteria, and past performance, among other things. The three provincial departments were selected on the basis of their third quarter expenditure and historical Grant performance.

**3. Submission by National Treasury**

With regard to spending on the EIG in the 2017/18 financial year, National Treasury reported that only Mpumalanga (at 93 percent), Limpopo (at 97 percent) and Gauteng (at 99 percent) did not manage to spend 100 percent of their total allocations. However, the completion of new and replacement schools in 2017/18 were well below target in most provinces, while the maintenance output performed slightly better. Considering that provincial budgets were almost fully spent, Treasury pointed out that there is a clear gap between expenditure and performance.

In terms of new schools completed during this period, National Treasury reported the provincial performance as follows:

* Eastern Cape did not target any new schools to be built;
* Free State completed no school against its target of one;
* Gauteng completed one, against a target of 12;
* KwaZulu-Natal completed five, against a target of seven;
* Limpopo completed two against a target of five;
* Mpumalanga achieved its target of one new school;
* Northern Cape did not target any new schools to be built;
* North West completed one against a target of six; and
* Western Cape achieved its target of three new schools completed.

With regard to the replacement of schools, Treasury reported the following performance per province:

* Eastern Cape replaced six schools out of a target of eight;
* Free State did not target any school for replacement;
* Gauteng targeted only one, but replaced two schools;
* KwaZulu-Natal replaced one, against a target of three;
* Limpopo achieved its target of one school replaced;
* Mpumalanga achieved its target of five schools replaced;
* Northern Cape did not target any school for replacement;
* North West replaced two against a target of seven; and
* Western Cape achieved its target of three schools replaced.

Regarding maintenance projects, Treasury reported provincial performance as follows:

* Eastern Cape achieved nine against a target of 37;
* Free State achieved 41 against a target of 56;
* Gauteng achieved 1 156 against its target of 750;
* KwaZulu-Natal achieved 245, against a target of 300;
* Limpopo achieved three, against a target of 151;
* Mpumalanga achieved its target of 72 projects;
* Northern Cape achieved 29 against a target of 50;
* North West achieved 20 against a target of 26; and
* Western Cape achieved 49 against a target of 71.

With regard to human resource capacitation, Treasury indicated that a total of R42 million from the EIG was made available in the 2017/18 financial year for the appointment of permanent officials in the provincial education infrastructure units. Despite this, Treasury reported that there were still a total of 135 vacant posts across the nine provinces, as well as 41 posts filled by incumbents who do not comply with competency requirements. Progress was reported to be slow specifically in the Free State and the North West.

National Treasury further reported the following challenges with the implementation of the Grant:

* Contractors not being paid on time, resulting in them abandoning site and stalling projects.
* Poor contractor performance, which results in delays and poor workmanship on projects; while non-performing contractors are not adequately dealt with.
* Some contractors appointed do not have the appropriate grading for the type of infrastructure that is required to be built.
* Delays in receiving practical completion certificates from the consultants, means that projects cannot be closed.
* Community unrest and labour disputes; partly as a result of all stakeholders not being consulted adequately.
* Supply Chain Management (SCM) blockages cause delays in project implementation.

In conclusion, National Treasury made the following recommendations to address the above challenges:

* Contractors with appropriate grading should be appointed and penalties must be imposed when there is non-performance. This has to be made clear in the contract documents.
* SCM units should be capacitated with the required competencies to manage the infrastructure procurement effectively.
* There needs to be proper consultation with all stakeholders, especially communities, to minimise the risk of unrest later in the project implementation.
* Departments need to ensure that contractors are paid within 30 days so that they remain on site to complete implementation, and projects do not stall because of cash flow reasons.

 **4. Submission by Department of Basic Education**

**4.1 Education Infrastructure Grant**

The report by the Department of Basic Education (DBE) confirmed that the provincial expenditure on the EIG did not match the outputs in terms of new schools completed, schools replaced and maintenance projects.

The DBE reported specific challenges per province, as well as plans to mitigate these, as follows:

The problem in the **Eastern Cape**, was one of over-commitment. In order to address this, a number of projects were being put on hold and PIAs had been instructed that they could not award any tenders without prior approval from the DBE.

In the **Free State,** provision of water could not be achieved because the identified farm schools were closed during 2017/18 financial year. The closing process was delayed due to farm labourer migrations and parents who did not want to move their children away from home to schools with hostel facilities. The schools that had been closed, would be removed from the list of schools without basic services, leaving no schools without water. The addition of classrooms and Grade R classrooms (implemented by Public Works) had been put on hold due to a litigation process. As soon as this has been finalised, the procurement process will commence to deliver the classrooms as initially planned. Lastly, there had been delays in the procurement process, but mechanisms have been put into place to fast-track the process, and in the first quarter of the new financial year a number of completed projects would be handed over.

In **Gauteng,** the allocated budget had been reduced and targets had to be revised to be in line with the adjusted allocation. This meant that all the new schools that were to be constructed with alternative technology, were deferred to commence in the following financial year.

The most prominent challenge experienced by **KwaZulu-Natal,** was that of inadequate cash flows. This resulted in service providers terminating work on site, having a domino effect as targets were not met. Engagement with the top management was underway to release the infrastructure funding as per the allocation and ensure that the EIG was utilised in adherence to the conditions.

**Limpopo** experienced budgetary pressures due to over-commitments. To address this, implementation of the set target has been slowed down, pushing completion to the following financial year. The 2018/19 deliverables have been adjusted in order to cater for the current commitments and avoid budget pressure in the 2018/19 financial year.

In **Mpumalanga**, poor performance of contractors has led to a delay in delivery of projects. The plan was to now closely monitor poor performing contractors and ensure that the implementing agent enforced contractual disciplinary measures.

The **Northern Cape** had experienced challenges with slow-performing contractors; but these contracts had now been terminated. In addition, projects had to be reprioritised due to emergency maintenance; leading to engagement with the implementing agents to ensure that the projects were completed in 2018/19. In order to address delayed commencement of projects on site, there would now be closer monitoring of the implementation.

Challenges in the **North West** had included inadequate capacity of implementing agents; which the Provincial Treasury was now addressing. Slow SCM processes had delayed procurement and delivery; but monthly engagements were now taking place with the relevant unit. Community unrest and labour disputes had necessitated the improvement of engagements with communities to ensure all the stakeholders were considered. Lastly, there had been slow performance of contractors due to labour and contractual disputes. In order to address this, programme performance meetings were now being held with implementing agents and contractors.

In the **Western Cape**, there had been a delay in receiving practical completion certificates from the consultants, meaning some projects could not be declared completed. These projects would be reported on in the first quarter of the 2018/19 financial year, upon receiving the practical completion certificates. Another project had been delayed due to the contractor abandoning site. This contract had now been cancelled; and a new contractor appointed to complete the project. The site was handed over on 24 April 2018.

**4.2 Accelerated School Infrastructure Delivery Initiative (ASIDI)**

Although it does not fall under the EIG, the DBE was requested to provide a progress report on the Accelerated School Infrastructure Delivery Initiative (ASIDI). The DBE reported that the expenditure on this programme for the 2017/18 financial year, stood at 101.6 percent. This was up from the 60 percent and 77 percent expenditure in 2016/17 and 2015/16, respectively.

With regard to progress on inappropriate structures, the DBE reported that, out of a total of 367 projects implemented, 202 had been completed. By far the biggest number of these projects had been in the Eastern Cape, followed by the Free State and the Western Cape. A total of 468 sanitation projects had been completed out of the 992 implemented. Regarding progress with water, the DBE reported that 681 out of 1 252 projects had been completed; with 372 out of 393 electricity projects completed.

The DBE further reported on the results of the Sanitation Audit that had been commissioned by the President. These included that a total of 4 108 schools had unacceptable sanitation, with the biggest number in the Eastern Cape, followed by KwaZulu-Natal and Limpopo. In addition, a total of 6 226 schools had insufficient sanitation, the biggest number being in the Eastern Cape, followed by Mpumalanga and Limpopo. The DBE estimated that the cost of providing proper sanitation and demolishing pit latrines (that pose a danger) was R8.2 billion.

**5. Submission by Mpumalanga Department of Education**

The Mpumalanga Department of Education (MDE) reported that its EIG allocation of R750 million in the 2017/18 financial year, had been supplemented with R250 million of the provincial equitable share and R2.6 million of the Expanded Public Works Programme (EPWP). The MDE indicated that it had spent R700 million (or 93 percent) of its EIG allocation. This was an improvement on the 2016/17 expenditure, which had been only 86 percent.

The MDE further reported the following challenges relating to the implementing agent (IA):

* Late appointment of service providers by the implementing agent (IA).
* Poor project and construction management practices by the IA resulting in the following:
* Late/non-submission of invoices for work done; resulting in a high influx of invoices during March, beyond the departmental capacity to process, thus resulting in accruals;
* Delays in the submission of the Final Accounts due to delays and non-attendance to snag lists to ensure project closures;
* Poor monitoring of service provider performance to ensure compliance and adherence to the general conditions of contracts; and
* Non-implementation of consequence management for poorly performing service providers.
* The above-mentioned deficiencies in programme management point to the IA’s capacity to implement a large infrastructure portfolio together with other client departments; thus having only one IA for the province is a challenge.

In addition to the above, the MDE reported the following challenges that hamper project delivery and performance:

* Community facilitation bottlenecks due to sporadic cases of local sub-contracting; local interference with the project scope; and communal land disputes, where identified and confirmed sites are contested during the project implementation stage.
* Expenditure is affected by contingency fees (5 percent of the contract amount) being paid only as and when required, and retention fees (also 5 percent of the contract amount) only being released at the final account stage.
* The Department finds it difficult to attract registered professionals in the fields of engineering and architecture.
* Deficiencies in the Department’s Infrastructure Planning Business Process Flow Mapping, lead to situations where some identified and prioritised needs are found not to be required at the time of implementation; and the process of cancellation and replacement with other shelf projects requires time, affecting the actual implementation targets and projected expenditure.

The MDE reported the following interventions to address some of the challenges:

* Through the Division of Revenue Act funding, the MDE has been able to increase its in-house technical capacity through the appointment of professionally registered personnel; with only five professional posts still vacant.
* The Service Level Agreement between the client and implementing department has been reviewed to strengthen areas of cooperation, project implementation and contract and construction management.
* The Implementing Agent should finalise the Community Facilitation Strategy to guide project facilitation and engagement.
* Project oversight committees, such as the Premier’s Provincial Infrastructure Coordinating Committee, Joint Operations Committee and the Programme Operations Management Meeting, are in place to ensure programme delivery.
* The DME is in the process of submitting a request to the EXCO seeking approval for considering multiple IAs for the Department’s portfolio.
* The updated schools’ infrastructure database, uploaded on the Education Facilities Management System, is now used for confirmation of needs validity.

**6. Submission by Free State Department of Education**

The Free State Department of Education (FSDE) reported that the main budget allocation for the EIG was R662 million in the 2017/18 financial year. This amount was adjusted to R853 million within the same financial year. The actual expenditure at the end of the financial year was R852 million which is 99.9 percent of the allocated Grant funds.

Table 1: Performance of the Education Infrastructure Grant

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| --- | --- | --- | --- | --- | --- | --- |
| **EIG Structure** | **2017/18 Main Budget** **R000’** | **2017/18 Adjustment Budget** **R000’** | **2017/18 Commitment** **R000’**  | **2017/18 Actual Expenditure as at end March 2018** **R000’** | **2017/18 Available Budget as at end May 2018** **R000’** | **Actual Expenditure as a % of Adjusted Budget** |
| Buildings & other fixed structures | 502 303 | 571 381 | 84 967 | 630 538 | -144 124 | 110.35% |
| Compensation of Employees | 21 000 | 15 000 | 0 | 18 895 | -3 890 | 125.97% |
| Goods & Services | 138 332 | 265 535 | 26 683 | 200 657 | 30 195 | 75.57% |
| Machinery & Equipment | 0 | 100 | 0 | 2 001 | -1 001 |  |
| **Total** | **661 635** | **852 916** | **111 650** | **852 091** | **-110 826** | **99.9.%** |

The above table shows the 2017/18 financial year EIG allocation and expenditure by the FSDE. Even though the expenditure looks impressive, the FSDE reported that there were budget pressures due to the number of projects exceeding the allocated budget. The FSDE also reported the following challenges:

* Projects implemented for longer periods than expected due to various challenges on sites.
* Budgeting for the radical eradication of pit-latrine toilets.
* The 2018/19 financial year budget cuts due to the funding of free higher education.
* Delays in the implementation of projects handled by the Free State Department of Public Works and Infrastructure.
* Slow progress in ongoing projects due to contractor capacity and on-site challenges.
* Compromised quality of reporting work done due to the incorrect classification of payments.

On mitigating the reported challenges, the FSDE reported that all projects which were planned but not yet contracted, would be deferred to outer financial years in the Medium Term Expenditure Framework. This would help rationalise the User Asset Management Plan (U-AMP) with the budget allocations and ensure budgeting in line with standard chart of accounts classification. The filling of critical vacant posts in the Physical Resources Management Chief Directorate, including the district offices, would be prioritised. The FSDE further committed to ensure the realisation of concurrence between the Free State Heads of Departments of Education and Public Works and Infrastructure in relation to project planning and implementation. Another remedial action that the FSDE committed to, was to strive to pay contractors within 30 days to enable physical progress on sites.

**7. Submission by Western Cape Department of Education**

The Western Cape Education Department (WCED) reported that it had spent 100 percent of its revised EIG allocation of R1.1 billion in the 2017/18 financial year; and that the Grant funds had been supplemented by R589 million of provincial equitable share funds.

The WCED further reported that, by the end of the fourth quarter, the following drought intervention projects had been completed:

* Water restrictors (91);
* Smart water meters (187);
* Testing borehole water (232);
* Repaired non-functioning boreholes (201); and
* Fire extinguishers procured (11 000).

In addition to the above, a geographic information system (GIS) tool was developed to assess water security at schools.

The WCED reported the following ongoing risks and challenges:

* The annual learner growth of, on average, 18 000, results in overcrowding.
* Success of learner retention in the system.
* Infrastructure budget remains constant, with no significant growth.
* Steep escalation of infrastructure delivery cost.
* The backlog in the maintenance of existing stock is growing.
* Non-availability of appropriate land, especially in the Metropole.
* Non-performing contractors, especially on maintenance projects.
* Crime and vandalism negatively impacts delivery and maintenance of infrastructure.

**8. Observations**

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

8.1 The Committee noted that, although the EIG is a Schedule 4 Grant, meant to supplement provinces’ own allocations from their equitable share, provincial contributions have reportedly been dwindling, with some provinces relying almost entirely on grant funding.

8.2 Even though spending on the EIG is good, with only three provinces failing to spend 100 percent, there is a gap between expenditure and performance, with the completion of new and replacement schools in 2017/18 well below target in most provinces, and the maintenance output performing only slightly better.

8.3 Despite an amount of R42 million from the EIG being made available for the appointment of permanent officials in the provincial education infrastructure units, progress with human resource capacitation was reported to be slow, specifically in the Free State and the North West.

8.4 The Committee is concerned over the reported late payment of contractors and the negative impact this has on the delivery of school infrastructure and on the service providers concerned.

8.5 The Committee noted that delays in project implementation were caused by supply chain management units not being capacitated with the required competencies to manage infrastructure procurement effectively.

8.6 There is a lack of capacity in national and provincial public works departments, leading to late appointment of service providers; the appointment of service providers without the appropriate grading for the required infrastructure; poor monitoring of contractor performance; and non-implementation of consequence management for poorly performing service providers, among other things.

8.7 Education infrastructure projects are sometimes delayed by community unrest and labour disputes, partly as a result of all stakeholders not being consulted adequately prior to project implementation.

8.8 The EIG is fundamental for the improvement of the education infrastructure. However, the education sector seems to be struggling with handling the additional infrastructure responsibility, which should be the mandate of Public Works departments.

**9. Recommendations**

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

9.1 All provinces should guard against relying entirely on grant funding to improve education infrastructure. Grant funding should be continuously supplemented by their own equitable share allocations.

9.2 The failure to reach output targets with respect to new and replacement schools and maintenance, despite a 100 percent spending of the Education Infrastructure Grant (EIG), may compromise the objectives of this Grant. Therefore, the national Department of Education should strive to ensure that there is a correlation between EIG expenditure and the output performance, with targets being achieved within a financial year. The Department of Basic Education should provide a progress report to Parliament within three months after the adoption of this Report by the House.

9.3 Conscious of the fact that infrastructure provision is not the mandate of the education sector, the Free State and North West Provinces should ensure that the funds allocated through the EIG for the appointment of permanent officials in the provincial education infrastructure units, are spent accordingly. The provincial education departments of the Free State and North West should provide a progress report to Parliament within three months after the adoption of this Report by the House.

9.4 All provinces should strive to ensure that contractors are paid within 30 days as per the National Treasury Regulations. The late payment of contractors compromises the small contractors as well as the provision of services within the education sector. The provincial education departments of Mpumalanga, Free State and the Western Cape should provide a progress report to Parliament within three months after the adoption of this Report by the House.

This is a recurring recommendation across all conditional grants monitored by the Committee.

9.5 The lack of capacity in provincial supply chain management units compromises the implementation of education infrastructure projects. As such, the Committee recommends that the provinces should capacitate these units with the required skills as a matter of urgency. The provincial education departments of Mpumalanga, Free State and the Western Cape must provide a progress report to Parliament within six months after the adoption of this Report by the House. The Department of Basic Education, in consultation with National Treasury, should assist provinces to build capacity in supply chain management units.

9.6 The Executive Authority in the national and provincial departments of Public Works should consider addressing the lack of capacity within these departments, as it impacts negatively on the delivery of education infrastructure. The national Department of Public Works should provide a progress report to Parliament within three months after the adoption of this Report by the House.

9.7 Consultation of community members, through a public participation processes, should be a priority during planning and implementation of infrastructure projects. Moreover, early warning mechanisms should be put in place to monitor possible emerging labour unrest; and when disputes do occur, they must be resolved in a way that does not cause unnecessary delays to projects. Provincial education departments should provide a progress report to Parliament within three months after the adoption of this Report by the House.

9.8 The National Treasury, the Department of Public Works, the Department of Basic Education (DBE) and relevant Cabinet Committees should reconsider the decision to mandate the DBE to be responsible for the improvement of education infrastructure. Based on the submissions made to the Committee, the education sector seems to be struggling with handling the additional infrastructure responsibility, which is the core mandate of Public Works departments, and this may have a negative impact on the core mandate of the DBE.

Report to be considered.