**4. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2018 DIVISION OF REVENUE AMENDMENT BILL [B34 – 2018], DATED 12 NOVEMBER 2018**

The Standing Committee on Appropriations having considered the 2018 Division of Revenue Amendment Bill [B34 - 2018] (National Assembly – section 76 (the Bill), reports as follows:

1. **Introduction**

The Division of Revenue Amendment Bill (henceforth referred to as the Bill) was tabled in Parliament on 24 October 2018 by the Minister of Finance during the presentation of the 2018 Medium Term Budget Policy Statement (MTBPS). The Bill was referred to the Committee on 7 November 2018 and the Committee received a briefing thereon from the National Treasury. To facilitate public participation, the Committee published adverts in print media in all 11 official languages from 28 October 2018 to 2 November 2018 and no submissions were received.

The Bill and its annexures address the following matters:

* Changes in the equitable division of nationally raised revenue among the spheres of government;
* Adjustments to Provincial Allocations;
* Adjustments to Local Government Allocations; and
* Changes to Conditional Grant frameworks.

This report focuses on amendments proposed in the Bill tabled by the Minister and the matters raised during the briefing by National Treasury

1. **Equitable division of revenue raised nationally among the spheres of government**

Table 1 hereunder outlines the equitable division of revenue raised nationally among the three spheres of government.

**Table 1:** Schedule 1

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| --- | --- | --- | --- |
|  | **Column A** | | |
| **Sphere of government** | **2018/19 Main Budget**  **R’000** | **Adjustment**  **R’000** | **2018/19 Adjusted Budget**  **R’000** |
| **National** | R979 181 797 | (R564 128) | R978 617 669 |
| **Provincial** | R470 286 510 |  | R470 286 510 |
| **Local** | R62 731 845 |  | R62 731 845 |
| **Total** | **R1 512 200 152** | **(R564 128)** | **R1 511 636 024** |

*Source: National Treasury (2018)*

The net effect of the 2018 adjustments is a budget adjustment on the 2018/19 main allocation from R 1.512 trillion to R1.511 trillion. The national allocation has been adjusted downwards by R564.128 million from R979.182 billion to R978.618 billion.

1. **Adjustments to provincial allocations**

The following lists proposed adjustments with regards to provincial conditional grants:

* An amount of R175.8 million is added to the *Education Infrastructure Grant* for KwaZulu-Natal and Western Cape in order to repair schools damaged by natural disasters. KwaZulu-Natal has been allocated R150 million for the repair and rehabilitation of over 87 schools and Western-Cape has been allocated R25.8 million for the repair and rehabilitation of 22 schools.
* An amount of R267.8 million is added to the *Comprehensive Agricultural Support Programme Grant.* R266.5 millionis allocatedto fund the provision of feed and water for livestock in six drought affected provinces and R1.3 million is allocated to repair damages to 15 farms in Knysna, Western Cape.
* An amount of R200 million is added to the *Land Care Programme Grant: Poverty Relief and Infrastructure Development* to fund activities to improve the resilience of agricultural land to drought which includes removal of alien vegetation, fencing, firebreaks, stock water systems and other infrastructure related projects.
* An amount of R200 million is added to the *Provincial Disaster Relief Grant* to replenish the grant so that it can be used to fund relief for any further disasters that may occur during the 2018/19 financial year.
* An amount of R1.3 million that was committed but not spent in 2017/18 is rolled-over for the *Learners with profound Intellectual Disabilities Grant.* These funds are for the procurement of learner teacher support material for the Eastern Cape and Northern Cape.
* An amount of R16.3 million is allocated through a new *Provincial Disaster Recovery Grant* to KwaZulu-Natal for the repair of provincial buildings damaged by heavy storms and floods. R11.3 million is allocated for the repair and rehabilitation of 10 buildings managed by the Department of Cooperative Governance and Traditional Affairs and R5 million for the repair and rehabilitation of 10 buildings managed by the Department of Social Development.
* An amount of R241.51 million is added to the direct *Health Facility Revitalisation* G*rant.* R199.5 million is allocated for KwaZulu-Natal to repair 14 hospitals damaged by heavy storms and floods and R42 million is converted from the *National Health Insurance indirect grant : health facility revitalisation component* to the *direct health facility revitalisation grant* for the Northern Cape to deal with emergency maintenance backlogs.
* An amount of R100.1 million is added to the *Human Settlements Development Grant* for the repair of over 3280 subsidised houses damaged by floods in KwaZulu-Natal and 3 houses damaged by fire in Knysna, Western Cape.
* An amount of R18.4 million is rolled over for the *Substance Abuse Treatment Grant* in order to complete the construction of treatment facilities in the Free State and Northern Cape
* An amount of R800 million is added to the *Schools Infrastructure Backlogs Grant* for the completion of school infrastructure projects where plans have already been approved and ready for implementation. This addition seeks to accelerate the pace of delivery of safe school facilities.
* An amount of R154 million is added to the *National Health Insurance Indirect Grant.* R166 million is added for the procurement of medical equipment as well as the planning and design of Limpopo’s proposed new academic hospital. This proposed allocation was approved through the Budget Facility for Infrastructure. R30 million is added for the human papillomavirus vaccine component. This proposed allocation was reprioritised from within the vote of the national Department of Health. R42 million is taken away from the *National Health Insurance Indirect Grant: health facility revitalisation component* to the *direct Health Facility Revitalisation Grant* for the Northern Cape to deal with emergency maintenance backlogs.
* Within the *National Health Insurance Indirect Grant* R350 million *i*s reprioritised to address the critical shortage of human resources in the health sector. The funds are allocated through a new *human resource capacitation component*. R150 million is also reprioritised within the National Health Insurance Indirect Grant for the procurement of beds and linen to improve the functionality of health facilities. The funds are allocated through a *beds and laundry services component.*

1. **Adjustments to the local government equitable share and conditional grants**

The following section lists proposed adjustments with regards to municipal conditional grants:

* An amount of R23.2 million is converted from the indirect *Municipal Systems Improvement Grant* to a direct *Municipal Systems Improvement Grant* for 22 municipalities to complete transitional matters that were required as a result of boundary changes that took effect after the 2016 local government elections. (The municipalities have been implementing institutional and administrative changes with funding from the former municipal demarcation transition grant which was ended at the end of the 2017/18 financial year.)
* An amount of R1.17 billion is allocated through the *Municipal Disaster Recovery Grant.* R1.03 billion to be allocated to three metropolitan municipalities that have been severely impacted by the drought: Cape Town, Nelson Mandela Bay and Mangaung. The funds will subsidise the costs of water augmentation projects, including groundwater development and water conservation measures where the reduction of water losses will improve the sustainability of supply. R138.7 million is allocated for municipalities in KwaZulu-Natal for the repair and rehabilitation of roads, stormwater and sanitation infrastructure and community facilities that were damaged by floods. R4.6 million is allocated for the repair and rehabilitation of water and electricity infrastructure in the Bitou Local Municipality in the Western Cape.
* An amount of R33 million is added to the *Public Transport Network Grant* for the City of Cape Town to begin detailed design on a new phase of the MyCiti public transport network. This proposed additional allocation was approved through the Budget Facility for Infrastructure.
* An amount of R288.1 million is added to the *Water Services Infrastructure Grant* to fund a variety of water supply augmentation projects for drought `affected municipalities including drilling and equipping boreholes to access groundwater and implementing water conservation measures where the reduction of water losses will improve the sustainability of supply.
* An amount of R1.01 billion is added to the indirect *Water Services Infrastructure* to fund a variety of water supply augmentation projects for drought affected municipalities including drilling and equipping boreholes to access groundwater and implementing water conservation measures where the reduction of water losses will improve the sustainability of supply.
* An amount of R6 million is added to the indirect *Regional Bulk Infrastructure Grant* to fund a water supply augmentation in Ndlambe Local Municipality affected by drought.

1. **Changes to conditional grant frameworks**

Together with the tabling of the Bill, National Treasury also submitted to Parliament proposed changes to gazetted conditional grant frameworks and allocations. Section 16(4) of the Division of Revenue Act, 2018, requires National Treasury to consult Parliament on any proposed changes to conditional grant framework for the purpose of correcting an error or omission, as envisaged in Section 16(2) of the Division of Revenue Act, 2018. The following proposed changes to conditional grant frameworks were submitted by the Minister of Finance together with the Bill:

* *Comprehensive Agricultural Support Programme Grant, Land Care Programme Grant, Municipal Disaster Recovery Grant, Water Services Infrastructure Grant* and *the Regional Bulk Infrastructure Grant:* The grant frameworks of these grants are amended to include the following conditions related to drought relief funding:
  + Transferring officers to monitor the progress on the implementation of the interventions by considering the progress reports submitted by the receiving officers on a monthly basis.
  + Transferring officers to report on a monthly basis on progress to the National Joint Drought Coordinating Committee of the Inter Ministerial Technical Committee of Drought and Water Security.
  + One month after the receipt of the allocations, receiving officers to provide a detailed breakdown to the relevant transferring office and National Treasury of the components funded through the allocations.
  + Receiving officers to report on the expenditure of the funds in line with the requirements in section 12 of the 2018 Division of Revenue Act (DoRA) and the gazetted framework for the relevant grant.
* *The National Health Insurance Indirect Grant: Health Facilities Revitalisation component and the Public Transport Network Grant:* The grant frameworks is amended to include the following additional conditions attached to the approval of funds through the Budget Facility for Infrastructure:
  + The funds allocated in terms of the Budget Facility for Infrastructure are only to be used for the purposes that funding was allocated, and
  + Should there be cost variations of more than 10 percent, the National Treasury must be informed within 30 days.
* *Education Infrastructure Grant:* The grant framework is amended to ring-fence the additional funds allocated for the repair of schools damaged by disasters in KwaZulu-Natal and Western Cape.
* *Health Facility Revitalisation Grant:* The grant framework is corrected so that the ‘process for 2019/20 approval of implementation plans’ should refer to the submission of the infrastructure programme management plans for 2019/20, instead of 2018/19.
* *Human Papillomavirus Grant:* The due date for the final submission of business plans for 2019/20 in the grant framework is corrected from 29 March 2018 to 29 March 2019*.*
* *Maths, Science and Technology Grant:* The grant framework is corrected to rectify the omission of the 2016/17 audited financial outcomes.
* *Learners with profound intellectual disabilities Grant:* The grant framework is corrected to rectify an error that stated that members of itinerant teams should be hired on a contractual basis. The error is corrected to allow for the permanent appointment of specialists that form the itinerant teams.
* *Human Settlements Development Grant*: The grant framework is amended to include conditions attached to the approval of funding for the repair and rehabilitation of subsidised houses damaged by disasters.
* *Provincial Disaster Recovery Grant*: The grant framework is gazetted for 2018/19 as the grant did not form part of the 2018 Division of Revenue Act, 2018, but has now been allocated for the repair of provincial building damaged by storms and floods in KwaZulu-Natal.
* Three new grant components under the National Health Insurance indirect grant which did not form part of the Division of Revenue Act, 2018 are being gazetted for 2018/19:
  + *Human Papillomavirus Vaccine Component* is introduced to allow for the proper closure of a number of outstanding processes to ensure uninterrupted service delivery as implementation is being handed over to the provinces.
  + *Beds and Laundry Services Component* is introduced in response to the need for the procurement of beds and linen to improve the functionality of health facilities.
  + *Human Resource Capacitation Component* is introduced to allow provinces the fiscal space to pay for much needed healthcare professionals to improve health services across the country.

**7.** **Findings**

The Committee made the following findings during its deliberations with National Treasury on the 2018 Division of Revenue Amendment Bill:

* 1. The Committee welcomes the additional allocations to various infrastructure grants. The Committee emphasises that this should be accompanied by concerted efforts to improve the capacity of national, provincial and local government to implement infrastructure projects. Furthermore, adequate monitoring mechanisms are needed to ensure that allocations are utilised appropriately and for their intended purposes.
  2. The Committee welcomes the additional R1.01 billion allocated for the indirect Water Services Infrastructure Grant for water supply augmentation projects in droughts affected municipalities. However, the Committee is concerned about the Department of Water and Sanitation’s capacity to implement this grant effectively and efficiently on behalf of municipalities. The Committee notes that in-year spending on this grant as at end of the second quarter, 30 September 2018 was R295.7 million or 48.7 per cent of the original budget of R608.2 million. The Department reported underspending of R69.3 million attributed to slow processing of invoices due to construction performance verifications.
  3. The Committee welcomes the R150 million reprioritised from the National Health Insurance: Health Revitalisation component in response to the urgent shortage of beds and linen in health facilities. The Committee is of the view that procurement capabilities should be cascaded to provinces/ districts in order to ensure that this grant is effectively and efficiently spent by the end of the 2018/19 financial year.
  4. In its report on the 2017 Division of Revenue Amendment Bill, the Committee noted with concern the reprioritization of R415 million from the indirect Schools Infrastructure Backlogs Grant due to under expenditure. The Committee notes National Treasury’s report that expenditure on this grant has significantly improved and as a result of this an additional allocation of R800 million has been made available towards projects that are ready for implementation. The Committee welcomes this additional allocation and will monitor the Department of Basic Education closely in this regard.

1. **Recommendations**

The Standing Committee on Appropriations, having considered the submissions from stakeholders on the 2018 Division of Revenue Amendment Bill, recommends as follows:

**8.1** The Minister of Finance should ensure that National Treasury gazettes the following corrections to the Conditional Grant Frameworks as well as the New Conditional Grant Frameworks as set out in annexures 2 and 3 of the Bill, in accordance with section 16(4) of the Division of Revenue Act, 2018:

Corrections to Conditional Grant Frameworks:

* Comprehensive agricultural support programme grant;
* Land care programme grant;
* Education infrastructure grant;
* Learners with profound intellectual disabilities grant;
* Maths, science and technology grant;
* National health insurance indirect grant: health facilities revitalisation component;
* Health facility revitalisation grant;
* Human papillomavirus vaccine grant;
* Human settlements development grant;
* Municipal disaster recovery grant;
* Water services infrastructure grant;
* Regional bulk infrastructure grant; and
* Public transport network grant.

New Conditional Grant Frameworks:

* Provincial disaster recovery grant;
* National health insurance indirect grant: beds and laundry services component;
* National health insurance indirect grant: human papillomavirus vaccine component; and
* National health insurance indirect grant: human resources capacitation component.

1. **Committee Recommendation on the Bill**

The Standing Committee on Appropriations, having considered the Division of Revenue Amendment Bill [B34 - 2018] (National Assembly) referred to it and classified by the Joint Tagging Mechanism (JTM) as a Section 76 Bill, recommends that the Bill be adopted, without amendments.

Report to be considered