1. **REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE PROPOSED DIVISION OF REVENUE AND CONDITIONAL GRANT ALLOCATIONS TO PROVINCIAL AND LOCAL SPHERES OF GOVERNMENT AS CONTAINED IN THE 2018 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 29 NOVEMBER 2018**

In compliance with Section 6(10) of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009, the Select Committee on Appropriations, having considered the 2018 Medium Term Budget Policy Statement and having heard comments from stakeholders, reports as follows:

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# **Introduction**

The Minister of Finance (the Minister) tabled the Medium Term Budget Policy Statement (MTBPS) on 24 October 2018, outlining the budget priorities of government for the medium term estimates. In terms of the Money Bills Amendment Procedure and Related Matters Act No 9 of 2009, committees on appropriations are required to consider and report on the proposed division of revenue and conditional grant allocations to provincial and local government as contained in the MTBPS. The report of the Select Committee on Appropriations as per Section 6(10) of the Act must contain the following; as referred to it in terms of Section 6(8):

* The spending priorities of national government for the next three years;
* The proposed division of revenue between the different spheres of government and between arms of government within a sphere for the next three years; and
* The proposed substantial adjustments to conditional grants to provinces and local government, if any.

Upon tabling of the 2018 MTBPS, the Committee received presentations from the Minister of Finance and National Treasury on the proposed division of revenue and conditional allocation to provincial and local spheres of government. In order to facilitate public participation, the Committee advertised in print media in all 11 official languages calling for submissions from stakeholders and interested parties. Written submissions were received from the Budget Justice Coalition; COSATU; UNICEF; the Rural Health Advocacy Project; and the FairPlay Movement. All these stakeholders also made their orals presentations at a public hearing held on 23 November 2018. In addition, a written submission received from Dr S M Muller. In compliance with section 214(2) of the Constitution of the Republic of South African, the Committee invited the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga) to comment on the MTBPS. The FFC and Salga made presentations to the Committee on 30 October and 9 November, respectively.

# **Medium-term spending priorities and risks to expenditure outlook**

The budget continues to prioritise social spending including education, health, the provision of water and electricity services, and social grants. These commitments support economic and social development, and ensure sustainable support to millions of South Africans who live in poverty. Of the R1.7 trillion allocated to consolidated expenditure in 2018/19, 15 percent goes to basic education; 12 percent to public health; and 12 percent to social protection. R3.3 trillion, or 56.2 percent of total consolidated spending over the next three years, will be allocated to social spending.

In-year adjustments of R17.4 billion are offset by the use of the contingency reserve, provisional allocations, projected underspending and declared unspent funds. Main budget non-interest spending grows by an average 1.9 percent per year and the primary deficit narrows over time, reaching 0.2 percent of GDP in 2021/22.

Rising debt-service costs reflect the widening of the budget deficit and projected increases in debt. The second fastest-growing category is learning and culture, followed by health. The high growth in learning and culture reflects the bursary scheme for poor and working-class students.

Compensation has grown from 32.8 percent of total spending in 2006/07 to 35.2 percent in 2017/18, putting pressure on goods and services and capital investment. The 2018 public-service wage agreement exceeds budgeted baselines by about R30.2 billion through 2020/21.National and provincial departments are expected to absorb these costs within their R1.8 trillion compensation baselines over the same period. Government is working on options to manage these pressures over the medium term.

State-owned enterprises (SOEs) are a major risk to public finances; SOE debt redemptions over the medium term are expected to average R66 billion per year and several SOEs are not making sufficient profits to be able to service debt obligations falling due. National Treasury reported various initial steps to reform SOEs, which included the appointment of new boards and executives and initiating forensic investigations into allegations of corruption.

National Treasury also acknowledged that some national, provincial and municipal departments were in financial disarray; and that the latest Auditor-General of South Africa (AGSA) findings show increasing levels of irregular spending. National Treasury’s efforts to strengthen financial management include working with the AG and law enforcement agencies to reduce irregular expenditure in government, while improving transparency to reduce corruption; enhancing capacity-building in local government by deploying skilled professionals to manage and recover revenue; introducing a strategic framework to support more efficient, cost-effective and transparent procurement efforts, particularly in the health sector; and developing a framework that will include financial recovery plans to address non-performing departments. In addition, government has begun the process of rebuilding important state institutions through the Judicial Commission of Inquiry into Allegations of State Capture and the Commission of Inquiry into Tax Administration and Governance by the South African Revenue Service (SARS).

# **The proposed division of revenue**

The proposed division of revenue prioritises large social spending programmes that support basic education, health and social welfare services in provinces and water, sanitation and electricity services in municipalities. Allocations over the MTEF period include changes to respond to these policy priorities and to rebuild municipal capacity.

From Table 1 below one can see that, over the medium term, government proposes to allocate national departments 48.1 percent of available non-interest expenditure, provinces 42.9 percent and local government 9 percent. On average, national government resources grow by 7 percent, provincial resources by 7.2 percent and local government resources by 7.2 percent per annum.

## **Table 1: Division of revenue framework**

|  |  |  |
| --- | --- | --- |
|   **Division of Revenue** | **2018 MTBPS** | **Real Annual Average Growth Rate (2019/20-20219/22) %** |
| **2019/2020****R billion** | **2020/21****R billion** | **2021/22****R billion** |
| **National allocations** | **688.1** | **739.4** | **786.4** | **7.0%** |
| **Provincial allocations** | **613.0** | **658.6** | **704.0** | **7.2%** |
| Equitable share | 505.5 | 543.0 | 578.7 |  |
| Conditional grants | 107.4 | 115.6 | 125.3 |  |
| **Local government allocations** | **127.3** | **138.2** | **149.9** | **7.2%** |
| Equitable share | 69.0 | 75.7 | 82.2 |  |
| General fuel levy sharing | 13.2 | 14.0 | 15.2 |  |
| Conditional grants | 45.1 | 48.5 | 52.6 |  |
| **Total allocations** | **1 428.4**  | **1 536.2**  | **1 640.3** | **7.2%** |
| **Percentage shares** |  |  |  |  |
| National departments | 48.2% | 48.1% | 47.9% |
| Provincial | 42.9% | 42.9% | 42.9% |
| Local government allocations | 8.9% | 9.0% | 9.1% |

*(Source: National Treasury, 2018)*

National Treasury reported that the budget continued to prioritise social spending including education, health, the provision of water and electricity services, and social grants, supporting economic and social development, and ensuring sustainable support to millions of South Africans who live in poverty.

# **4. Changes to provincial allocations**

Transfers from the fiscus constitute over 95 percent of provincial budgets. Provinces prioritise spending on social services such as health, basic education and social welfare. Over the MTEF period, the 2018 MTBPS indicates that R2 trillion will be transferred to provinces, R348.4 billion of which will be in the form of direct conditional grants. The new wage agreement will place particular pressure on provincial budgets in the period ahead, because over 60 percent of these budgets are spent on wages.

Table 2: Provincial Equitable Share

|  |  |  |  |
| --- | --- | --- | --- |
| **Province** | **2019/20** **R million** | **2020/21****R million** | **2021/22****R million** |
| Eastern Cape | 68 816 | 72 750 | 76 299 |
| Free State | 28 184 | 30 340 | 32 414 |
| Gauteng | 102 447 | 111 645 | 120 709 |
| KwaZulu-Natal | 106 005 | 113 379 | 120 334 |
| Limpopo | 58 957 | 62 991 | 66 784 |
| Mpumalanga | 41 424 | 44 478 | 47 393 |
| Northern Cape | 13 423 | 14 390 | 15 310 |
| North West | 34 970 | 37 698 | 40 328 |
| Western Cape | 51 291 | 55 282 | 59 120 |
| Total | 505 518 | 542 953 | 578 691 |

The above table demonstrates the proposed provincial equitable share allocation over the MTEF period. In addition, the Social Worker Employment Grant and the Substance Abuse Treatment Grant will be absorbed into the provincial equitable share, from the 2019/20 financial year, as these programmes have been successfully rolled out in provinces.

# **5. Changes to local government allocations**

The 2018 MTBPS indicated that over the MTEF period, R415.5 billion will be transferred to local government, including R146.3 billion in infrastructure conditional grants. The largest transfer to municipalities would be the local government equitable share, which grows by 9.9 percent in 2019/20, 9.7 percent in 2020/21 and 8.6 percent in the 2021/22 financial years, respectively. These above-inflation increases account for growth in household numbers, and higher bulk water and electricity costs.

Government committed to strengthening municipal capacity in order to improve the use of the proposed allocations. Although the rules have been changed to allow municipalities to use grant funds to refurbish infrastructure, develop water conservation projects and maintain roads – if certain conditions are met – few municipalities have taken advantage of these provisions. The national departments that administer these grants are improving their capacity to support municipalities and to assess proposed projects.

In many areas of the country, municipal finances are under pressure. This is the result of the rising cost of delivering basic services and weak financial planning and controls, with poor management decisions leading to underinvestment in and insufficient maintenance of infrastructure. In some cases, corrupt practices have taken root in local administrations. Over the period ahead, national transfers to local government will continue to support the delivery of basic services, while incentivising improved performance and the turnaround of troubled municipalities**.**

The reforms to municipal grants will incentivise increased use of borrowing to fund infrastructure. A new Integrated Urban Development Grant will be introduced to allow intermediate cities to blend grant funds with revenues and loans they raise themselves. This new grant, alongside the Public Transport Network Grant, will include incentive components that promote good governance and increase investment of municipal revenues.

The proposed medium-term spending plans aim to reduce poverty and inequality, and to increase job creation and inclusive growth. Reprioritisation takes account of the President’s economic stimulus and recovery plan. Healthcare, education, basic services and social grants continue to receive priority in allocations, growing in real terms by 2-3 percent per year. The wage bill remains the single largest component of expenditure.

# **6. Inputs by stakeholders**

## **6.1 Financial and Fiscal Commission (FFC)**

In compliance with section 214(2) of the Constitution of the Republic of South Africa, read with Section 4(4)(c) of the Money Bills Amendment Procedure and Related Matters Act. No 09 of 2009 which states that Parliament must consider the Financial and Fiscal Commission’s (FFC’s) recommendations when dealing with money bills and related matters, the FFC was invited to make a submission on the Bill. Moreover, Part 1(3)(1) of the Financial and Fiscal Commission Act. No 99 of 1997 (as amended) was complied with as the FFC acts as an advisory body and makes recommendations to organs of State in all spheres on financial and fiscal matters.

The FFC commended government’s efforts to protect the local government equitable share (LGES), which is essential in maintaining and improving service delivery to communities. However, the FFC remained concerned about the projected slower real growth rates of the LGES in outer years (2020/21 and 2021/22) and encouraged the government to reconsider the growth rate of the LGES in outer years so that poor households are cushioned against the rising cost of free basic services. The FFC further indicated that revenue raising and inefficiency problems in the local government sector needed to be eliminated. According to the FFC, conditional grants to local government are of strategic importance as they are used to fund development of bulk infrastructure that underpin the delivery of water, sanitation and electricity. However, allocations in this regard are projected to decline by a real annual average of 1.1 percent over the next three years. The most significant reduction in local government conditional grants is in 2019 with a projected 8 percent real decline.

The FFC welcomed efforts to improve capacity within municipalities such as the recent deployment of experts to assist municipalities improve their performance and operational efficiencies. However, in the past five years, government has invested an average of R2 billion a year on improving capacity, without yielding positive results. The FFC called for an urgent review of government capacity initiatives within the local government space, focussing specifically on skills transfer to recipient municipalities. The FFC further reported that a significant proportion of the municipalities were distressed and dysfunctional, with their fiscal health deteriorating over the past few years. Thus the FFC recommended a thorough and comprehensive review of the local government fiscal framework in order to include a focus on governance and other institutional arrangements. The FFC was of the opinion that the division of revenue needed to respond to the fact that municipalities should not compromise on service delivery.

The FFC further noted the proposed establishment of an infrastructure fund that would comprise of contributions from government, the private sector and development finance institutions (DFIs); but emphasised that government needed to consider the intergovernmental fiscal arrangements and ensure balance in the allocation of resources across the three spheres of government. The FFC also welcomed efforts to publish expenditure reports of existing infrastructure projects to enhance accountability and transparency, saying this would minimise cost overruns and ensure timely completion of the projects. However, the FFC was of the opinion that, in addition to publishing expenditure reports, government needed to invest in an infrastructure delivery inspectorate to ensure that projects were delivered in accordance with the required standards and quality. It was the FFC’s view that allocating funds and observing its spending trends alone would not yield the desired results of efficiency and impact. Government should take the approach of costing infrastructure in line with its functions and performance with empirical data, to ensure the real productivity of the public sector is realised.

The FFC recommended that, in order to ensure optimal utilisation of the additional resources allocated to higher education and training (HET), the government should develop a much clearer plan for implementing the comprehensive fee-free higher education policy both to address uncertainty in the institutions of higher learning and to ensure efficient and effective utilisation of these resources. In this regard the FFC indicated that funding must be consistently available across all the students’ years of study; and should be aligned for building skill sets to stimulate economic development. While the FFC welcomed the implementation of fee-free HET, it felt that the government needed to implement measures to improve the quality of outputs and outcomes at all levels of the education system. This was particularly urgent in the rural universities and the Technical Vocational Education and Training (TVET) colleges.

## **6.2 South African Local Government Association (Salga)**

In compliance with section 214(2), the Committee invited Salga to make an oral and written submission on the Bill. The invitation was honoured by Salga. Salga began their submission by acknowledging that in the recent past, before the Value Added Tax (VAT) increase, there has been substantial tax rate increases (personal income tax, capital gains tax, excise duty and fuel levies) that had been implemented. Salga argued that this provided little room to increase and bolster the financial position through tax policy.

In response to this challenge, there has been the implementation of an economic stimulus/recovery package which aimed to unlock private sector or Development Finance Institutions funding, technical support and governance oversight in infrastructure investment. Salga also noted the initiative to create an infrastructure fund to, mainly, assist metropolitan municipalities and other entities.

On the public wage bill, Salga submitted that several government departments were likely to overspend on compensation of employees, with some requiring major reprioritisation towards their wage bills. The proposal that the national and provincial departments should absorb the wage cost increase may create bigger cost pressure on the budget and this may crowd out items such as procurement of goods and services and capital investment in social spending.

Salga highlighted the three key priorities of the 2018 Medium Term Budget Policy Statement (MTBPS) which included the economic stimulus and recovery plan as launched by President Cyril Ramaphosa; the improvement of governance and financial management at all levels of government; and the proposed reforms in state-owned entities and improving their financial health.

On the division of revenue, Salga submitted that they noted the medium term proposed allocation of 48.1 percent of available non-interest expenditure to national departments, and the 42.9 percent and 9 percent to the provinces and local government, respectively. Over the same period, the national government financial allocation would grow by 7 percent, provincial by 7.2 percent and local government by 7.2 percent. In actual financial terms, local government will receive, over the medium term expenditure framework, R415.5 billion, including R146.3 billion for infrastructure conditional grants.

With respect to the local government equitable share (LGES), Salga noted that the largest transfer to municipalities will decline from 9.9 percent in 2019/20 to 9.7 percent in the 2020/21 financial year. Even though the LGES will then contract to 8.6 percent in the 2021/22 financial year, Salga submitted that a number of factors which suggest that the LGES needed to be revisited, have been identified. These have included the following:

* The 2016/17 MTEF figures suggest that the true equitable share, after adjusting for local revenue, is somewhere between 19.5 and 22 percent, depending on the measure of revenue that is used;
* For many municipalities, the revenue-raising assumptions contained in the White Paper and which form the foundation of the current local government funding model, including the determination of the equitable share are neither accurate nor attainable, given local demographics and realities; and
* The role of the bulk suppliers in undermining municipal revenue collection needs to be considered and addressed. A more realistic model of municipal revenue needs to be developed, and the structural impediments that prevent municipalities from collecting revenue need to be addressed.

Salga further commented that a joint study, conducted by the FFC and Salga, on the cost of providing basic municipal services, raised a number of important issues. That is, in many service categories, the actual cost of service delivery is much higher and vary considerably across different municipalities than the estimates used for the purpose of calculating the LGES. Secondly, the renewal and maintenance of existing infrastructure was well below what was required. Thirdly, the administrative cost burden on municipalities was considerable and was greatly reducing the amount of funding that was available for direct spending on service delivery and infrastructure investment management. Salga argued that the greater the administrative cost share, the less effective and efficient the service delivery business model in terms of transforming financial inputs into effective municipal services or outputs.

On challenges within the local government sector, Salga acknowledged that - (i) there are financial and administrative problems in a number of municipalities that have contributed to the under-spending and/or inappropriate use of the LGES; (ii) there is no perfect solution for the division of revenue across government and trade-offs inevitably always have to be made; (iii) in reviewing the LGES, due consideration had to be given to factors that inhibit local municipalities from service delivery as mandated by the Constitution or which reduce the value-for-money outcomes of those service delivery models.

Salga commented that some stakeholders have argued that the equitable share of local government should increase, while others have argued that the government needs to adjust how this equitable share was distributed amongst municipalities. A better view on the understanding of the actual costs of providing municipal services, the ability of local government to raise own revenue to provide basic services to all poor households, the true extent of the funding gap, and the shortcomings of the business model assumptions that underpin the state’s funding model, were required.

With respect to municipal borrowing, Salga submitted that the National Treasury should implement sufficient reforms to clarify the role of Development Finance Institutions (DFIs) in municipal borrowing and regulate municipal development charges as to broaden municipal access to private capital markets. This would unlock access to an untapped credit market for viable borrowers - municipalities in this instance.

With regard to revenue collection and/or debt owed to municipalities, Salga welcomed the gesture of the deployment of Revenue Collection Experts to municipalities to assist in revenue collection and curbing the growth of the current debt trends. Salga submitted that the aggregate municipal consumer debts amounted to R143.2 billion. This is according to the 4th Quarter Section 71 Report compiled in accordance with Section 71 of the Municipal Finance Management Act. In addition, debt owed to municipalities by organs of the State was R7.9 billion. This amount was constantly rising even though the National Treasury continuously urge user departments to pay historical debts, except where there are disputes with respect to property ownership.

Salga welcomed the ring-fencing of debts owed by national departments in the *Appropriation Bill* and further urged all departments, especially Health, Education, Human Settlements and Social Development, that are the biggest debtors, to heed the call for a speedy resolution to this matter. On this issue, Salga added that should this trend and behaviour continue, decisive action – like the withholding of equitable share – should be taken against non-cooperating departments.

With respect to changes and differentiation in the local government conditional grant structure, Salga welcomed all the changes that had been effected in the Integrated Urban Development Grant. Salga added that the informal settlements upgrading had been part of the South African cities for a long time through the Urban Settlement Development Grant. Salga further indicated the need for a municipal turnaround allocation. This was due to 113 municipalities adopting unfunded budgets in the 2018/19 financial year, which was an increase from 83 municipalities in the previous financial year. Moreover, Salga submitted that municipalities owed Eskom and Water Boards more than R23 billion in arrears. Salga argued that when municipalities are in financial distress, the Constitution mandates that the provincial government must intervene and if the province is not able to, then national government must intervene. Salga appeared to argue that few past interventions have succeeded in producing a sustained turnaround. However, Salga welcomed the financial recovery plans which intend to strengthen the National Treasury’s Municipal Financial Recovery Service, which prepares financial recovery plans for municipalities and augment the capacity of provinces to implement these plans.

With respect to audit outcomes, oversight and accountability, Salga submitted that the Auditor-General had reported that audit outcomes in municipalities had regressed with irregular, fruitless and wasteful expenditure. Salga added that in the 2016/17 financial year, irregular expenditure was found to be around R28.4 billion, rising from R16 billion in the 2015/16 financial year. Over and above that, Salga submitted that R1.2 billion had been lost by municipalities in the collapse of the Venda Building Society Bank (VBS). Salga welcomed the collaboration between National Treasury, the Auditor-General and the Department of Cooperative Governance and Traditional Affairs to reduce wasteful, irregular and unauthorised expenditure and also deal with financial misconduct in municipalities.

In addition, Salga pointed out that a consequence management framework was not pursued and those responsible for wrongdoing are not sufficiently held accountable. Secondly, Salga submitted that Municipal Public Accounts Committees (MPACs), in most instances, were under-capacitated, under-resourced, chaired by junior councillors and most of their oversight recommendations had no binding effect and tended not to be implemented. For this to change, Salga proposed a legislative review, which would give more powers and clout to these structures so that they provide an effective oversight role. Added to that, Salga submitted that there was a need to deal with constant reforms in the local government sphere, since these were disruptive changes in the sector’s systems, regulations, reporting and compliance matters. Examples were the Municipal Regulations on a Standard Chart of Accounts (*m*SCOA) and General Recognised Accounting Standards 1 to 21. Salga argued that these constant changes create managerial and system instability, resulting in negative audit outcomes and causing management to shift focus to compliance instead of the strategic developmental imperative. Salga highlighted that they continue to support municipalities with poor audit outcomes on various issues under the Municipal Audit Support Programme.

Besides the above, Salga submitted that the funding model for district municipalities (DMs) needed to be reviewed; as a number of DMs were not viable and had no resources, nor capacity to fulfil their mandate/function of supporting the local municipalities under their jurisdiction. Salga argued that some districts do not receive the basic services component of the LGES, particularly those that are not water and sanitation authorities and as such, they rely mainly on the Regional Services Council Replacement Grant to fund their operations. Salga further added that the historical allocation as well as the current R23 million allocation fell far short of what is required to deal with the operational as well as the capital constraints of amalgamations.

## **6.3 United Nations International Children’s Emergency Fund (UNICEF)**

The United Nations International Children’s Emergency Fund (UNICEF) began their 2018 MTBPS submission by indicating that the downward revision to spending ceilings over the last six years produced mixed results for priority expenditure for children. However, despite the general fiscal austerity climate the South African government was at, UNICEF noted that the fiscal space for priority expenditures for children has increased and encouraged that should continue its upward trend over the 2019 MTEF, even though at a much slower rate. UNICEF further submitted that the fiscal space of South African government had grown, in part, because of demonstrated efficiencies in some departments, and the government’s own commitment to the country’s social wage. This was attributed by UNICEF to a growing record of innovation and efficiencies in the government departments. This, according to UNICEF, needed to be expanded in order to justify the allocation of additional financial resources for social sector departments.

With respect to the 2018 MTBPS, UNICEF made the following recommendations for to the 2019 MTEF period:

* Provincial governments (Education, Health and Social Development), in concurrence with Provincial Treasuries, should develop medium-term sector plans for the gradual elimination of spending arrears.
* Priority programmes, such as Violence Against Women and Children, that are funded through provinces’ equitable shares should be reported in annual budgets.
* Health sector efficiencies were achieved at the expense of further investments in infrastructure. Government should re-engage the health sector to increase infrastructure spending, especially in rural areas.
* Urgently improve the take-up of the Child Support Grant among infants and very young children. This should be enhanced by the reporting to the National Assembly on how the identification and registration of potential beneficiaries’ progress against set targets.
* The financing of the school sanitation programme should be fully implemented and education planners should carefully balance spending on school sanitation and other parts of the school infrastructure budget. To enhanced transparency, the detailed unit costs models for school sanitation should be published.
* Budget transfers to Non-Profit Organisations have suffered in both national and provincial governments. This led to recurring under-spending. The government should expedite the new NPO financing framework and report on progress in implementing provincial equitable share funding set aside for this purpose.
* Provincial Basic Education can and should capitalise on the surge in funding for the post-schooling sector by sharply increasing the number of university trained teachers in Mathematics, Science and English.

UNICEF also submitted that innovation and efficiency are needed at both departmental level and in service delivery institutions to expand access and improve the quality of service for children. In conclusion, UNICEF commented that the Zero-Rating of sanitary pads and the provision of free sanitary towels were important interventions and they should be implemented uniformly across provinces. Furthermore, UNICEF commented that the 2018 Budget and MTBPS did not provide sufficient information on progress in implementing the National Health Insurance or anticipating financial implications of roll-out over the MTEF.

## **6.4 Congress of South African Trade Unions (COSATU)**

The Congress of South African Trade Unions (COSATU) was of the opinion that the MTBPS did not go far enough, given the extent of the many crises facing government, workers and the economy as a whole. COSATU believed that it lacked a developmental vision, a comprehensive development strategy and coordination of the activities of various economic agents and had hoped to hear more about the recently announced stimulus package. While welcoming the additional funding provided to the clothing and textile sectors and infrastructure funding commitments, COSATU felt that there was little else that spoke to stimulating the economy. COSATU raised the fact that there was no jobs plan in the MTPBS, or any indication how government would ensure that its procurement was solely based upon locally produced goods, which was a key Jobs Summit agreement. COSATU further welcomed government’s pending Monetary Amendment Bill to allow for the establishment of state-owned entity (SOE) banks, dependent on their being viable.

COSATU applauded the measures taken to address the destruction caused by state capture and corruption, but demanded more clear action, including comprehensive forensic audits of the SOEs and government departments where mass scale looting took place; life style audits of members of the national and provincial cabinets, mayoral committees and senior managers of the public service and SOEs, including Supply Chain Management (SCM) officials. It was important to see those guilty of corruption prosecuted and their assets frozen and confiscated, given the spending of R400 million on commissions of enquiry.

While appreciating government’s infrastructure commitments, COSATU wanted to know how this differed from the previous infrastructure plans. It was felt that the MTBPS was silent on the need to arrest the collapse in local government; on what would happen to those municipalities that could not pay their workers because politicians gave the money to the VBS Mutual Bank; and the need to review the local government funding model as well as to bring transparency and accountability to its SCM processes.

Given the extent of the budgetary crisis, COSATU accepted the expenditure ceiling, but was not convinced about government’s projections that debt levels would stabilise at 58 percent of the GDP within three years. They were adamant that the IMF route had to be avoided at all costs and that government needed to engage meaningfully with stakeholders on ways to reduce corruption and wasteful expenditure, improve efficiency and cost savings, and ways to increase revenue and grow the economy.

While supporting the Minister’s comments that cabinet should be reduced, COSATU hoped that the President would go further and drastically reduce the number of Deputy Ministers; MECs and Mayoral Committees, and compel ministerial and deputy ministerial offices to adhere to their 12 and six personnel limits. COSATU was further of the opinion that cabinet perks should be slashed, including international travel of spouses and cutting salaries. Equally the state should put a limit on what the management of SOEs can earn. COSATU expressed shock at the figures listed in the MTBPS on the excessive amounts departments were spending on head offices.

COSATU expressed concern over allegations in the media about the Public Investment Corporation (PIC), and wanted Parliament to pass the PIC Amendment Bill before its term came to an end in 2019; as it was a critical anti-corruption and pro-worker Bill.

COSATU noted that the MTBPS stated that the public service wage bill and head count had stabilised at 35 percent of the budget, but heard nothing about how the massive wage gap in the public sector would be reduced. COSATU was of the opinion that we needed more teachers, doctors, nurses, social workers and police, and if there was a need for a cut in the public service, this should start with halving the number of cabinet ministers and the senior bureaucracy and not the professionals who are at the coalface. While applauding the commitments to fill critical vacancies in the health and justice departments, COSATU had hoped to see the integration of community health workers into the public service; the redeployment of the 56 000 SAPS officers at head offices and the 60 000 at desk posts at station level into policing on the ground.

COSATU indicated that the state of various SOEs posed a massive threat to the survival of the state, and that we could not afford to continue bailing them out and neither could we afford to allow them to collapse.  They found it worrying that the MTBPS was silent on Eskom’s plans to increase tariffs above inflation, retrench 30 000 workers and increase its debts by 50 percent to R600 billion; as well as on the Auditor-General’s submission to Parliament that he is no longer sure if PRASA is still viable. In addition, there was nothing about media reports that SA Express was losing R1 million a day on unusable planes, as well as on the SABC issuing retrenchment notices to a large number of its staff and freelancers.

COSATU welcomed the plans to invest in a turnaround of the South African Revenue Service (SARS), indicating that this needed to include cracking down on the massive customs evasion and fraud allowing floods of illicit goods in, decimating local industries and resulting in losses of billions in tax revenue.

COSATU appreciated the inclusion of sanitary pads amongst the VAT exempt products, but rejected government’s concessions as simply inadequate. It believed that there was money within the budget that could be redirected towards directly helping the poor. It called upon Parliament and government to urgently amend the MTBPS to include more VAT concessions, like exempting locally produced poultry as a key food and nutritional item for poor and working class families; increasing the free electricity and/or water allocation to indigent households; and R500 locally produced school uniform vouchers for learners at no fee schools. COSATU further welcomed Parliament’s legislative amendment requiring government to review the VAT hike at the end of the current MTEF and to report to Parliament in this regard and if circumstances permit, to reverse the VAT increase.

COSATU understood and supported the correct health and climate change objectives of the Carbon Tax and the Health Promotion Levy. However, expressed worry that government’s chaotic management style would lead to further job losses. While most manufacturing sectors were shedding jobs, these taxes were imposed with no plan to ensure a smooth and just transition for those industries allowing for affected workers to be reskilled and reabsorbed.

COSATU proposed several measures to increase revenue to support economic stimulus, job creation and developmental objectives, including fast-tracking the SARS Commission of Enquiry and the implementation of progressive tax proposals from the Davis Tax Commission; increasing company, capital gains and estate and inheritance taxes; cracking down on the massive rise in illicit tobacco sales and customs fraud; introducing export taxes on strategic minerals, metals and other resources, as well as investment tax credits to encourage local procurement of machinery and equipment, amongst others.

In conclusion, COSATU expressed concern over several departments who were far behind their Annual Performance Plan targets, which could result in massive fiscal dumping in the last quarter of the year. These departments included Water and Sanitation; Basic Education; Energy; Rural Development and Land Reform; Higher Education and Training; Social Development; Agriculture, Forestry and Fisheries; Small Business Development; Transport; Public Works; Human Settlements; Tourism; Sport and Recreation. COSATU’s view was that government should reallocate funds from these departments to where it was needed and would be spent.

## **6.5 Budget Justice Coalition**

The Budget Justice Coalition (BJC) is a coalition of about 20 civil society organisations whose focus is on active engagement and transformation of the budget to ensure substantive equality in society. The BJC submissionfocused on selected votes which in their view needed concerted interventions in relation to budgeting and planning following the tabling of the 2018 MTBPS.

The table below reflects the findings and the recommendations tabled by the BJC:

|  |  |  |
| --- | --- | --- |
| **Vote** | **BJC Findings** | **BJC Recommendations** |
| Basic Education  | * Concern that although DBE allocations are increasing, the annual percentage growth is slowing down.
* Concern regarding DBE’s underspending especially continuous trends of underspending on the ASIDI programme.
* Concern that DBE hasn’t met any targets regarding ASIDI especially since the project was to be concluded after 3 years and yet 7 years later there is no completion.
 | * That the Committee, National treasury and DBE work together to determine which programmes contribute to underspending and mitigate this in the current and the next financial year.
* That financial management support be provided to DBE and provincial education departments to encourage output driven expenditure, particularly on infrastructure grants.
* Increased oversight on the ASIDI programme to ensure efficient budget expenditure and achievement of delivery targets before the 2020 Norms and Standards second deadline.
 |
| Post-School Education & Training  | * Noted the additional amount of R103 million allocated to Programme 3: university Education increasing allocation to R59.25 billion.
* Concerned about the consequence of these increases on other social spending budgets e.g. baseline reductions across a number of sectors, including budget cuts to municipal, housing and education infrastructure in 2018/19 budget.
* How does the state intend to address these competing priorities in order to sustain the funding of fee free higher education and ensure that other social needs are met through appropriate budget allocations?
* Concerned that there’s no policy or guidelines related to fee free higher education and of the view that the absence of a guiding document raises doubts about the sustainability of this proposal.
 | * That the Department of Higher Education and Training, in consultation with the relevant stakeholders and National Treasury, develop a policy or guidelines that speak to the roll-out of fee-free higher education.
* Government to ensure that the realisation of fee-free higher education does not compromise the provision of other social services, such as basic education – particularly in relation to budget allocations.
* That DHET supports NSFAS in addressing governance challenges as a matter of urgency. The consequences of the disarray within the funding scheme impacts those in need of financial assistance most of all.
 |
| Health | * View that current allocations are insufficient to transform health care delivery as per NHI Bill proposals for addressing immediate priorities and challenges.
* Concern that in-year additional allocation of R300 million is inadequate in addressing health workers staffing crises.
* Concerned about growing accruals estimated at R14 billion per annum (and thus growth in wasteful and irregular expenditure) due to poor leadership and governance in the management of health resources.
* View that investments in Community Health Workers (CHW) need to be accelerated to fully integrate them into the health workforce.
* Concerned about medico legal claim in excess of R56 billion attributed to continued underinvestment in service delivery.
* Concerned about significant underperformance in health infrastructure grants e.g. R820 million reprioritised in NHI Facility Revitalisation grant in 2018.
 | * That NDOH compile a comprehensive Human Resource for Health (HRH) distribution analysis of health workforce at facility, district and provincial level.
* That NDOH along National treasury develop a funding plan for the filling of critical frontline health posts.
* That leadership and governance challenges in provincial departments be addressed to ensure that health allocations are spent.
* That NDOH develop a plan to address challenges in NHI indirect grant in relation to underspending.
* That NDOH implement the National Community Health Worker policy and the recommendations of the CHW investment case.
 |
| Social Development | * Concern that potential beneficiaries of Child Support Grant are being excluded given the declared unspent funds of R630 million in 2018/19 FY.
* Concern that although SA is a signatory to the International Covenant on Socio Economic Rights, there is no commitment to social assistance to vulnerable poor people between 18-59.
* Concern about impact of VAT increases on food security of poor people: Food Relief Programme allocation is for supporting 413000 vulnerable people but only 122806 vulnerable individuals accessed support.
 | * That National Treasury fully integrate pro-poor social assistance into economic recovery plans.
* That the administrative exclusion of potential beneficiaries of child support grant be investigated i.e. DSOD provide insights into reported efficiencies in assessment as well as lower than expected demand despite anecdotal evidence to the contrary.
* That National Treasury along with DSOD investigate the progressive implementation of a Basic income Grant and prioritise the review of comprehensive social security.
* That Parliament prioritises the passing of the Social Assistance Amendment Bill to create a Child Support Grant top up for orphans in line with the High Court Order.
 |
| Environmental Governance | * Welcomed 4.5 increase in Department of Environmental Affairs allocation but analyses of budget mix indicate that 54 per cent of department’s budget is allocated to the Expanded Public Works Programme.
* Note with concern that less than 30% of departments budget allocated on department’s core work of overseeing and fulfilling legal responsibilities emanating from South Africa Environmental Statutes due to green projects and EPWP focus. This poses a risk to department fulfilling its constitutional obligation.
* Concern that a mere 9 per cent allocation of total budget to Department is alarming in light of significant environmental risks.
 | * There is a need to reorganise the current budget mix to support the department’s core work.
* That consideration should be given to moving current EPW programs housed within the department to the expanded public works programs which promote more efficient implementation
* Request the department of planning monitoring and evaluation to investigate current mandate of the department and report on the extent to which the department budget is sufficient to deliver its mandate.
 |
| Human Settlements | * Notes that the right to housing is central to fulfilment of a number of fundamental rights including the right to health and the right to dignity
* Concern that housing delivery will take the City of Cape Town about 60 years to get through its waiting list.
* Concern that over 3.1 million people live in informal settlements
* Of view that continued failure in this program is longer acceptable as we move towards our 25th year as a democracy .
 | * Request an analysis of the extent to which current intergovernmental fiscal arrangements are impacting on the delivery of this right
* Investigate the extent constraints on the delivery of subsidy units with a mere 33% of targeted units reached
* Request the department to submit plans to address weaknesses in informal settlement upgrading plans
* Investigate the withholding of the Human Settlements Development Grant to Limpopo
* Request treasury to investigate the introduction of new funding conditions to improve the performance of Urban Settlements Grants
 |
| Rural Development & Land Reform  | * Concern that despite the dominance of the land issue in political discourse the MTBPS offers little guidance on the extent to which the deficiencies in the current program will addressed over the medium term.
* Concern that, instead, an already miniscule land reform budget is reduced by 35 %
* Concern that no new measures or programs are introduced to address serious problems in the program highlighted in our written submission
 |  |

## **6.6 Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) in its submission focussed on the provision of health services in rural areas of South Africa. It submitted that while a substantial portion of the national budget was allocated to health, this amount was unlikely to meet the immediate needs of the health sector. It was of the view that available resources are prioritised to both protect the health system from further decline while also ensuring access to quality health services for particularly vulnerable and underserved groups. With regard to the human resources for health, the RHAP recommended the following:

* The Department of health should consider compiling a report highlighting the current distribution of health care workers across provinces, districts and level of care;
* The Department of Health should consider developing a transparent prioritisation tool that will inform which posts are filled; and
* Prioritise the filling of vacant rural posts where more than 95 per cent of communities rely on the state as the sole provider of health care services.

In terms of the improvement of health management and information systems, the RHAP recommended that an assessment into the current information technology programmes in health to gauge the functionality and cost effectiveness of current systems. The stakeholder also commented on the state of rural infrastructure and submitted that a new approach was needed. To this end, it recommended that parliament requests National Treasury to compile a detailed overview on the performance of health infrastructure grants over the last nine years highlighting the extent to which projects aligned to project costs. Furthermore, the RHIP recommended that the Department of Health should provide a comprehensive list of projects and engage in a process that prioritise the fixing of existing infrastructure. Given the transition into the National Health Insurance, the RHAP submitted that rural projects needed to be prioritised as these communities were completely reliant of public sector facilities.

The RHAP further commented on the challenges relating to oversight and governance in provincial health departments and made the following recommendations:

* a review of the current intergovernmental fiscal arrangements with view to ensuring that funding allocated for health was used for its intended purpose.
* Investigate the management of current supply chain management policies within provincial department of health.
* Request provinces to assess the capability of hospital and health committees to conduct facility based oversight and ensure that the necessary funding is available to support same.
* Insist on the prioritisation of the rural health system with the establishment of a rural health task team to investigate the state of delivery specifically in rural districts.

## **6.7 FairPlay Movement**

FairPlay acknowledged that the 2018 MTBPS was presented during a difficult economic and fiscal conditions which emanated from a technical recession due to stagnant economic growth. FairPlay acknowledged that South Africa’s growth forecast had been revised downwards from 1.5 percent to 0.75 in 2018 and that the economic growth was expected to gradually recover to over 2 percent in 2021. Added to that, FairPlay commended government’s initiative to add sanitary towels and flour to the zero-rated bucket list. The revenue loss associated with the addition of these items was estimated to be R1.2 billion.

Further to the above, FairPlay submitted that while the addition of flour and sanitary towels was commended, the needs and demands of the poor and poorer household had not been sufficiently addressed by the 2018 MTBPS. FairPlay highlighted that the Zero-Rated list did not adequately address nutritional concerns such as stunting, malnutrition and the dietary and consumption needs of the poor. According to FairPlay, chicken remained a popular source of meat for poorer households and its exclusion from zero-rating continued to be the detriment of the poor. In addition, FairPlay stated that if chicken was to be added to the zero-rating list, 11 000 new jobs would be created; R1 billion in tax revenue would be collected and R3.7 billion would be added to the Growth Domestic Product (GDP). FairPlay strongly recommended that chicken should be added to the Zero-Rated bucket list.

# **7. Observations and Findings**

While considering and deliberating on the 2018 MTBPS and submissions by stakeholders, the Select Committee on Appropriations observed the following:

**7.1** The Committee welcomes the written and oral submissions, which were received from the Budget Justice Coalition; COSATU; UNICEF; the Rural Health Advocacy Project; the FairPlay Movement; the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga). In addition, a written submission was received from Dr S M Muller. The Committee also notes the observations and recommendations made by these stakeholders with regards to challenges in the different sectors of government.

**7.2** The Committee notes the concerns raised by both COSATU and FairPlay where they are calling for more VAT concessions, such as exempting locally produced poultry as a key nutritional food item for poor communities. It was further highlighted that there would be 11 000 new jobs if chicken was added to the zero-rated list.

**7.3** The Committee notes COSATU’s concern over several government departments which were allegedly falling behind their Annual Performance Plan targets, these included Water and Sanitation; Basic Education; Energy; Rural Development and Land Reform; Higher Education and Training; Social Development; Agriculture, Forestry and Fisheries; Small Business Development; Transport; Public Works; Human Settlements; Tourism and Sport and Recreation. COSATU’s main concern was that these could result in massive wasteful and fruitless expenditure as a result of fiscal dumping.

**7.4** The Committee notes COSATU’s concern around the state of various SOEs which poses a massive risk to the survival of the State, and the continued attempts to bail them out without seeing improvement. The Committee agrees with the sentiment and believes that any bailout package to an SOE is not meant to be a long term intervention but to stabilise the entity to get back to a profitable position.

**7.5** Notwithstanding the current difficult economic climate, the Committee welcomes the growth in the MTEF allocation by 7 percent for national, 7.2 percent for provincial and 7.2 percent for local government. The Committee also welcomes the R2 trillion which will be transferred to the provincial sphere of government over the MTEF, of which R348.4 billion will be in the form of conditional grants.

**7.6** The Committee notes Salga’s submission that the funding model for district municipalities (DMs) needed to be reviewed; as a number of DMs seemed not to be viable and had no resources, nor capacity to fulfil their mandate/function of supporting the local municipalities. Salga further argued that some districts do not receive the basic services component of the LGES, particularly those that are not water and sanitation authorities and as such, they rely on the Regional Services Council Replacement Grant to fund their operations.

**7.7** The Committeenotes Salga’s submission that financial reforms such as the Municipal Standard Chart of Accounts (*m*CSoA) have created managerial and system instability in some municipalities, resulting in negative audit outcomes and causing management to shift focus to compliance instead of the strategic developmental imperative.

**7.8** The Committee notesSalga’s submission that municipalities owe Eskom and water boards a total amount of R23 billion in arrears and some of these are already financially distressed.

# **8. Recommendations**

After considering and deliberating on the 2018 Medium Term Budget Policy Statement and submissions by stakeholders, the Select Committee on Appropriations recommends as follows:

**8.1** After the submission made by COSATU and FairPlay around the impact of the VAT increase on poor communities, the Committee recommends that National Treasury look into the expansion of VAT concessions and add more basic food items into the zero rated list in the 2019 Budget.

**8.2** The Committee recommends that the National Treasury together with the Department of Planning, Monitoring and Evaluation engage with the Departments of Water and Sanitation; Basic Education; Energy; Rural Development and Land Reform; Higher Education and Training; Social Development; Agriculture, Forestry and Fisheries; Small Business Development; Transport; Public Works; Human Settlements; Tourism; Sport and Recreation to prevent fiscal dumping, given the current constrained fiscal environment.

**8.3** Given the state of some SOEs, the Committee recommends that both the National Treasury and the Department of Public Enterprises enhance their oversight role over entities and further implement the Presidential Review Recommendations Report on State Owned Entities, which calls for the reconfiguration, rationalisation and even the merger of some entities in order to ensure efficient and effective utilisation of the available resources.

**8.4** While the Committee welcomes the increase in the 2018 MTEF allocations for all spheres of government, the Committee calls upon the National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA) to strengthen monitoring mechanisms both in the provincial and local government sphere to improve service delivery and attainment of specific priorities. The Committee also recommends that the National Treasury gives municipalities (particularly those in small towns and mostly rural areas) greater flexibility in the use of grants to encourage more innovative approaches to resolving local challenges.

**8.5** In the case of municipalities owing Eskom and water boards, the Committee recommends that the National Treasury, CoGTA and Salga expedite the process of resolving this matter in order to improve the revenue collection base for these entities. In the case of distressed municipalities, the Constitution mandates the provincial government to intervene and if the province is not able to, then national government is required to assist through CoGTA.

**8.6** The Committee recommends that National Treasury, CoGTA and Salga look into the viability of some district municipalities, their mandate and their revenue raising capacity.

**8.7** The Committee is of the view that any financial management reform should result in an effective and efficient municipal environment. The Committee recommends that, through Section 34 of the Municipal Finance Management Act (MFMA), National Treasury and provincial treasuries together with Salga provide support and ensure that there is necessary capacity to better implement financial management reforms in the local government.

**8.8** The Committee condemns the culture of non-compliance with the Public Finance Management Act (PFMA) and the MFMA that has emerged in all three spheres of government and the impact it has had on the national fiscus.  The Committee recommends that, within the framework of its prescribed role, National Treasury conduct better fiscal oversight over other government departments and entities and advocate robust fiscal oversight and monitoring and evaluation of monies transferred to implementing agents and entities at the provincial and local spheres of government. The implementation of the Public Audit Amendment Act of 2018 will allow the AGSA to take remedial action to ensure that losses suffered by the state are recovered and refer suspected material irregularities for investigation.  Accounting officers who contravene the PFMA and MFMA should be held responsible.

The Democratic Alliance objected to the Report.

Report to be considered.