

**FINANCE PORTFOLIO COMMITTEE**

1. **REPORT ON THE MANDATE OF THE DIVISION OF REVENUE BILL [B5-2019] – SECTION 76**

**The Chairperson of the Finance Portfolio Committee (Portfolio Committee), Mr S Khumalo tabled a report on the Division of Revenue Bill *[B5-2019] (the* Bill).**

# INTRODUCTION

The Bill is introduced in terms of section 76 of the Constitution of the Republic of South Africa, 1996 (“the Constitution”) and it is widely referred to as a section 76 Bill.

The Bill is introduced annually to give effect to Section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1990 (“IGFRA”). The Bill provides for the equitable Division of Revenue anticipated to be raised nationally among the National, Provincial and Local spheres of Government for the 2019/20 financial year.

The total revenue raised and to be shared amongst the three spheres of government, amounts to R1 658 707 000 in 2019/20, increasing to R 1 769 566 000 in 2020/21 and R1 900 485 000 in 2021/22 financial years respectively. It is worth noting that Gauteng Province receives total national transfers of R125 525 000 000 comprising of R 102 448 000 000 in equitable share and R23 077 000 000 in conditional grants for the 2019/20 financial year.

# PROCESS FOLLOWED

The Speaker of the Gauteng Provincial Legislature formally referred the Bill to the Finance Portfolio Committee (“Portfolio Committee”) for consideration in terms of Gauteng Provincial Legislature Standing Rule 245(1) read with 247 (1) and 248.

On Friday, 15 March 2019, the Portfolio Committee received a presentation on the Bill by the officials from National Treasury.

As required by the Standing Rules of the Gauteng Provincial Legislature*,* the Portfolio Committee invited stakeholders to their meetings mainly to observe Committee proceedings and later make verbal or written submissions. On Saturday, 16 march 2019, the Portfolio Committee conducted a public hearing to receive submissions from stakeholders.

On Tuesday, 19 March 2019, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

* 1. **PRINCIPLE AND DETAIL OF THE BILL AND THE GOVERNMENT’S POLICY PRIORITIES FOR THE 2019/20 MTEF**

To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2019/20 financial year, the determination of each province’s equitable share and allocations to provinces, local government and municipalities from national government’s equitable share and the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

# The allocations to the three spheres of government for the 2019/20 financial year and MTEF are informed by national interest encapsulated in government priorities that benefit the nation as a whole. These priorities are outlined in the National Development Plan, which sets out the countries long-term development trajectory. Complemented by the strategic integrated projects overseen by the Presidential Infrastructure Coordinating Council and the 14 priority outcomes adopted by Cabinet in 2014-2019 Medium Term Strategic Framework (MTSF).

In addition, the Division of Revenue for the 2019/20 financial year is mainly in line with the recommendations made by the Financial and Fiscal Commission (“FFC”), which is mandated by Section 220 of the Constitution to provide information to all organs of state in order to make informed decisions about complex fiscal matters. The FFC consults on these matters with all the three spheres of government.

* 1. **CONSTITUTIONAL AND STATUTORY FRAMEWORK**

Section 214 of the Constitution requires that an Act of Parliament must provide for:

* The equitable division of revenue raised nationally among national,

Provincial and local spheres of government;

* The determination of each province’s equitable share of the provincial share of that revenue; and
* Any other allocations to provinces, local government or municipalities from the national government’s share of that revenue, and for any conditions on which those allocations may be made.

Further than this, section 7(3) of the Money Bills Amendment Procedure and Related Matters Act, 2009, requires the introduction of the Division of Revenue Bill at the same time as the Appropriation Bill is introduced.

The Bill seeks to amongst others, give effect to the provisions of Section 214 of the Constitution. These include national interest, debt provision, the needs of national government, flexibility in responding to emergencies, resource allocation for basic services and developmental needs, the fiscal capacity and efficiency of provincial and local government, the reduction of economic disparities, and the promotion of stability and predictability.It is noted in this regard that the bill is in alignment with the Constitution and other relevant statutory framework.

# OPINION OF THE PROVINCIAL EXECUTIVE COUNCIL ON THE BILL

# The Portfolio Committee noted that National Treasury consulted widely on the Division Revenue Bill by circulating the draft Bill. The Gauteng Provincial Treasury on behalf of the Provincial Executive Council is satisfied that the 2019 Division of Revenue Bill has adequately responded to government’s priorities over the 2019 MTEF period.

* 1. **SOCIO-ECONOMIC IMPACT**

Though there are pressing economic challenges such as lower revenue generation and slower than projected economic growth, the Bill will uplift the standard of living across the province in many ways. These include investing in an infrastructure that would attract investment, establishment of programmes aimed to uplift young graduates, support for small businesses, outsourcing of services to youth, women and people living with disabilities as prescribed by the SCM and Preferential Procurement Plan.

Furthermore, the Committee should note the conditional grants allocated towards education infrastructure investment and school nutrition programme, HIV and AIDS (life skill education) and the support for the National Health Insurance. Noting the increased demand for social services due to in-migration, the Bill will surely uplift the standard of living in the country.

The Division of Revenue Bill 2019 present the government an opportunity to make inroads towards the realisation of the NDP 2030 priorities. The 2019 Division of Revenue Bill provides a fair balance between the economic and social allocations and the redistribution of revenue from wealthier provinces to poor province. Furthermore, the Bill aim to maximise the socioeconomic returns with the limited financial resources available.

* 1. **FINANCIAL IMPLICATIONS OF THE BILL**

Over the past year, government has worked to end the policy inertia and uncertainty that have undermined confidence and constrained investment in the economy. To this end, new partnerships with the private sector have led to large-scale investment commitments. While several commissions probing allegations of corruption and wrongdoing continue their work, a special directorate is being established to investigate and prosecute serious crimes that have being revealed. Government is reforming state-owned companies, with Eskom as its immediate focus.

The 2019 Budget outlines a series of fiscal measures intended to move the economy onto a new trajectory and reduce the long-term to South Africa’s public finances. Government’s central economic policy goal is to accelerate inclusive growth and create jobs. Its main fiscal objective is to ensure sustainable finances by containing the budget deficit and stabilizing public debt.

The environment remains challenging, hence the medium term economic outlook has been revised down, with GDP growth forecast to reach 1.5% in 2019, rising to 2.1% in 2021. Weak economic performance and residual problems in tax administration have resulted in large revenue shortfalls. The deteriorating financial position of state companies has put additional pressure on public finances.

In light of these considerations, the 2019 Budget priorities are as follows:

* Narrowing the budget deficit to stabilize the national debt-to-GDP ratio;
* Supporting the restructuring of the electricity sector, and reducing the immediate risks Eskom poses to the economy and the public finances;
* Renew economic growth by strengthening private sector investment, improving planning and implementation of infrastructure projects, and rebuilding state institutions.

Excluding the debt-service costs and the contingency reserves, the total revenue raised and to be allocated between the three spheres of government, amounts to R1 658 707 000 in the 2019/20 FY, increasing to R1 769 566 000 in the 2020/21 FY and R1 900 485 000 in the 2021/22 FY. **Of importance, the Portfolio Committee also notes that these allocations take into consideration government’s spending priorities, each sphere’s revenue raising capacity and responsibilities, and input from various intergovernmental forums and the recommendations of the FFC.**

**Table 1: Total Transfers to provinces, 2019/20**

|  |  |  |  |
| --- | --- | --- | --- |
| **R million** | **Equitable Share** | **Conditional Grants** | **Total Transfers** |
| Eastern Cape | 68 824 | 12 079 | **80 903** |
| Free State | 28 187 | 7 863 | **36 049** |
| Gauteng | 102 448 | 23 077 | **125 525** |
| Kwa-Zulu Natal | 106 014 | 21 137 | **127 151** |
| Limpopo | 58 965 | 9 061 | **68 026** |
| Mpumalanga | 41 428 | 8 245 | **49 673** |
| Northern Cape | 13 424 | 4 483 | **17 907** |
| North West | 34 973 | 7 551 | **42 524** |
| Western Cape | 51 291 | 12 809 | **64 099** |
| Unallocated | - | 408 | **408** |
| **Total** | **505 554** | **106 712** | **612 266** |

*Source: National Treasury*

Table 1 above is a graphical representation of total transfers to provinces for the 2019/20 financial year. Gauteng Province receives R102 448 000 000 from the equitable share allocation and R23 077 000 000 for conditional grants in 2019/20 financial year which amounts to R125 525 000 000. **The Portfolio Committee noted with appreciation that provincial equitable share grows faster than conditional grants over the MTEF, thereby giving provinces greater flexibility in budgeting for their priorities.** The equitable share grows at 7.2% a year, while conditional grants grow at 6.3% a year.

These allocations take into consideration key trends in equitable share data updates like, education component, health component, basic share component, poverty component, economic activity component and institutional component. For the education component, Kwazulu-Natal receives the highest allocation of 22% followed by Gauteng at 18.7%. Gauteng ranks highest on the health component share, basic share component, and the economic activity share at 23.6%,

25.5% and 34.6% respectively. **The Portfolio Committee welcomes the equitable share data updates and urges National Treasury to continuously update such data to ensure credible and reliable data which reflects the state of the province.**

**The Portfolio Committee noted with appreciation that the provincial equitable share formula continues to be reviewed in collaboration with provincial treasuries and the FFC (and taking account of recommendations from parliament and provincial legislatures and inputs from stakeholders, including NGOs).** To this effect, in the 2018 and 2019 MTEFs, major changes are being phased-in to improve the data in the education component (accounting for nearly half the PES). School enrolment data is now based on DBE’s new LURITS database which tracks learners through the education system and is more accurate than the previous surveys used. Data for the size of the school-aged population has been changed from the 2011 Census to the annually updated StatsSA Mid-Year Population Estimates

* 1. **MAJOR CHANGES TO CONDITIONAL GRANTS**

**The Portfolio Committee noted that despite the government’s adjusted baseline expenditure, overall growth in direct conditional grants is strong, averaging 6.3% over the MTEF period.** Direct conditional grants baselines amount to R106.7 billion in 2019/20, R114.2 billion in 2020/21 and R122.4 billion in 2021/22. On the other hand, indirect conditional grants total R4.6 billion, R5 billion and R5.7 billion for each year of the MTEF respectively.

The Portfolio Committee further noted the changes in the conditional grants as follows:

* A new *Human Resources Capacitation Grant*, which was previously a component of the indirect *National Health Insurance Grant* will become a direct grant to enable provincial Health Departments to fill critical posts in health facilities. The total provincial transfer amounts to R2.8 billion over the MTEF period;
* An additional R2.8 billion is added over the medium term to the indirect *School Infrastructure Backlogs Grant* to provide for safe and appropriate sanitation at schools;
* Two new components are added to the *Comprehensive HIV, AIDS and TB Grant.* The first component aims to strengthen the continued fight against malaria in three provinces and the second component enables the Health Department to monitor the activities and outcomes of the TB portion of the grant. The grant is now referred to as the *HIV,TB, Malaria and Community Outreach Grant;*
* A window with specific conditions relating to informal settlement upgrading will be introduced in the *Human Settlements Development Grant* in 2019/20 to intensify efforts to upgrade informal settlements. This window will amount to 15 per cent of the formula-based grant allocation to each province. This window also serves as the planning and preparatory platform for the introduction of the new *Informal Settlements Upgrading Grant for Provinces* in 2020/21;
* The *Provincial Emergency Housing Grant’s* purpose is expanded in 2019/20 to include the funding of the repair of houses damaged by disasters, if the repairs is deemed to be more cost-efficient than relocating households to temporary shelters;
* Unallocated funds within the *Comprehensive Agricultural Support Programme Grant* amounting to R271.5 million in 2019/20, R295.8 million in 2020/21 and R320.1 million in 2021/22 has been reprioritized. The funds will be used for the implementation of a new blended finance mechanism developed by the Department of Agriculture, Forestry and Fisheries and the Land Bank to leverage both Government and private funds to extend more affordable credit to black farmers;
* Due to slow spending in the personal services component of the indirect *National Health Insurance Grant,* R2.8 billion has been reprioritized from this component towards the new *Human Resources Capacitation Grant* over the 2019 MTEF period;
* *Human Settlements Development Grant* baseline is reduced by R3 billion over the MTEF period in order to stabilize the growth of national debt. The reduction amounts to R1 billion in 2020/21 and R2 billion in 2021/22;
* R2.5 billion of the *Human Settlements Development Grant* allocation is ring fenced over the MTEF period to upgrade human settlements in mining towns in six provinces. This R2.5 billion is in addition to the allocations determined through the formula;
* The *Substance Abuse Treatment Grant* and the *Social Worker Employment Grant* has been phased out. The grant funding has been incorporated into the provincial equitable share over the 2019 MTEF period. This will allow provinces to use their equitable share to start operating facilities that were built to address substance abuse and employ the social workers previously funded through these two respective grants;
* The component within the *Provincial Roads Maintenance Grant*, which makes provision for the rehabilitation of roads that are heavily used in support of electricity production will come to an end in 2019/20. The funding of this component will form part of the grant’s incentive baseline as of 2020/21; and
* the *Public Transport Operations Grant* will be a direct transfer to certain metropolitan municipalities, if the public transport contracting and regulatory functions are assigned to municipalities in 2019/20
  1. **GENERAL COMMENTS ON THE DIVISION OF REVENUE**

A large part of the Division of Revenue Bill remains the same annually, however due to continuous change in the economic environment revisions are mainly to take into consideration specific policy adjustments.

**The Portfolio Committee noted the successful management of conditional grants often requires the collaboration of several departments, but there is currently no binding requirement for the responsibilities placed on other national or provincial departments in a grant framework.** To this end, these responsibilities are now formally provided for in clauses 9(4) and 10(11). Furthermore, a new clause 27(2) (b) also requires that the transferring officer must consult any other department that has responsibilities listed in a grant, before submitting the draft framework to National Treasury.

**Technical changes to the Bill**

* R100 million is reprioritized over the MTEF period from *Comprehensive Agricultural Support Programme Grant* to the Agricultural Research Council for the construction of the foot and mouth disease vaccine production facility;
* Amounts of R30 million in the 2020/21 FY and the 2021/22 FY are reprioritized from the *Comprehensive HIV, AIDS and TB Grant* and *Community Outreach Grant* to support malaria control projects in southern Mozambique;
* The *Education Infrastructure Grant*, *Human Settlements Development Grant*, *Provincial Road Maintenance Grant* and *Expanded Public Works Programme Integrated Grant for Provinces* have been reduced by R600 million , R400 million, R199.5 million and R41.8 million respectively over the MTEF period. The Portfolio Committee noted that these reductions have been effected to assist with fiscal consolidation and to fund other government priorities; and
* The *School Infrastructure Backlogs Grant* , which was due to merge with the *Education Infrastructure Grant* in the 2018/19 FY , was extended and will continue over the 2019 MTEF period
  1. **SUMMARY OF SUBMISSIONS**

In line with the requirements of the Constitution of the Republic of South Africa, the Portfolio Committee invited key stakeholders to make submissions. Hereunder is the summary of submissions relevant to the Division of Revenue Bill:

* That the consequences of the misappropriation of public funds should not impact on the

constitutionally enshrined right of learners, to a quality basic education;

* Department of Education has to address insufficient access to sanitation facilities in public schools, as learners continue to have to use undignified and unhygienic toilets.
* That government should ensure strict adherence to Regulations Relating to Minimum Uniform Norms and Standards for Public School Infrastructure
* Concentrate on the maintenance of school infrastructure in the province specifically, and the country more broadly
* The budget reduction regarding education infrastructure grant has undoubtedly impacted on the GDE’s ability to deliver school infrastructure, reflected in the slow pace towards eradicating and replacing schools made of asbestos in the province.
* That the frameworks for the Maths, Science and Technology Grant should be reviewed to include the building of Laboratories;
* That national Treasury should consider allocating more money on roads infrastructure; and
* That the Budget should consider funding vocational education.

**The Portfolio Committee notes that submissions from stakeholders will be forwarded to National Treasury for consideration.**

* 1. **COMMITTEE RECOMMENDATIONS ON THE DIVISION OF REVENUE**
     1. **That National Treasury should maintain a delicate balance between government debt as a percentage of the GDP and fiscal policy targets without compromising service delivery; and**
     2. **That national Treasury should constantly update the provincial equitable share data to ensure validity and reliability of such data in making transfers to the provinces.**
  2. **FINAL POSITION ADOPTED BY COMMITTEE**

The Finance Portfolio Committee supports the principle and detail of the Division of Revenue Bill *[B5 – 2019]* - Section 76.