**8. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE BILL [B5-2019], DATED 27 MARCH 2019**

The Select Committee on Appropriations, having considered the ***Division of Revenue Bill* [B5 – 2019]** (National Assembly-Section 76(1)), referred to it and classified by the JTM as a Section 76(1) bill, reports as follows:

1. **Introduction and background**

Section 214(1) of the Constitution of the Republic of South Africa requires that every year a Division of Revenue Act should determine the equitable division of nationally raised revenue between national, provincial and local government. In line with Section 7(1) (3) of the Money Bills Amendment Procedure and Related Matters Act (Act No 9 of 2009), as amended by Act No 13 of 2018 (the Money Bills Act); Section 27(1) of the Public Finance Management Act (Act No 1 of 1999), as amended by Act 29 of 1999, and Section 10(1) of the Intergovernmental Fiscal Relations Act (Act No. 97 of 1997), the Minister of Finance, Mr T Mboweni, tabled the 2019 annual national Budget, including the Division of Revenue Bill (the Bill) in the National Assembly (NA) on 20 February 2019.

The purpose of the Bill is to provide for –

* 1. the share of each sphere of government of the revenue raised nationally for the relevant financial year;
	2. each province’s share of the provincial share of that revenue; and
	3. any other allocations to the provinces, local government or municipalities from the national government’s share of that revenue, and any conditions on which those allocations are or must be made.

The 2019 Budget has been reprioritised in response to the weaker than expected economic and fiscal environment. In order to remain within the revised expenditure ceiling, the government’s policy priorities for the 2019 Medium Term Expenditure Framework (MTEF) period that are funded through reprioritisation in the division of revenue include –

• Improving the implementation of the Upgrading of Informal Settlements Programme by ring-fencing funds within conditional grants;

• Eradicating pit latrines in schools; and

• Supporting the roll-out of free sanitary products to learners from low-income households.

These reprioritisations complement baselines that provide R1.97 trillion to provinces and R414.7 billion to local government in transfers over the 2019 MTEF period. These transfers will fund basic education, health, social development, roads, housing and municipal services.

According to the previously mentioned legislative frameworks, the Bill must be processed in accordance with the procedure established by Section 76(1) of the Constitution. Due to the limited time available to process the Bill, and in order to save costs, the Committee was briefed on the Bill by National Treasury, jointly with the Standing Committee on Appropriations, on 07 March 2019. In addition, in compliance with section 214(2) (1) of the Constitution and Section 10 (4) of the Intergovernmental Fiscal Relations Act, the Committee consulted the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga) on the Bill. Furthermore, in line with Section 72 (1)(2) of the Constitution and 9 (5)(b) of the Money Bills Act, the Committee has a responsibility to hold a public hearing on the Bill each year. To this end, adverts calling for public submissions were published in the national print media in all eleven official laguages.. The Committee received and considered written submissions from Mr E Matlala; Mr MG Buthelezi; the Rural Health Advocacy Project and the Budget Justice Coalition; as well as written and oral submissions from the Western Cape Forum for Intellectual Disability and Equal Education. Furthermore, having considered the submission from Mr MG Buthelezi, the Committee was of the view that it was not relevant to the Bill and therefore it was not included in this Report. The Committee also consulted the Parliamentary Budget Office (PBO).

On 13 March 2019, the Bill was passed by the National Assembly (NA) and transmitted to the National Council of Provinces (NCOP) for concurrence. The National Council of Provinces, through the Permanent Delegates – Committee Members - briefed all nine provinces on 14 and 15 March 2019. Members submitted provincial negotiating mandates on 20 March 2019 and final mandates on 27 March 2019, which was an indication that provinces had fully participated in the processing of the Bill, as envisaged in Section 214(2) of the Constitution.

1. **The 2019 Division of Revenue allocations**

The Bill is a product of the South African Constitution guided by Section 214(1), which mandates that the revenue raised nationally must be shared equitably between the national, provincial and local spheres of government. The Bill was the outcome of an extensive consultative process between the three spheres of government, which culminated in the tabling, for consideration and adoption, of the Bill in Parliament on 20 February 2019.

Over the MTEF period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 47.9 percent of nationally raised funds are allocated to national government, 43 percent to provinces and 9.1 percent to local government. As reflected under schedule 1 of the Bill, Table 1 below shows the division of nationally raised revenue among these spheres of government.

**Table 1: 2019 Medium Term Expenditure Framework (MTEF) Division of Revenue**

|  |  |  |
| --- | --- | --- |
| **Spheres of Government** |  **Column A** |  **Column B** |
| **2019/20****Allocation**  |  **Forward Estimates** |
| **2020/21** | **2021/22** |
|  | **(R thousand)** | **(R thousand)** | **(R thousand)** |
| National | 1 084 180 207  | 1 150 974 279 | 1 239 678 123 |
| Provincial | 505 553 753 | 542 908 577 | 578 645 170 |
| Local | 68 973 465 | 75 683 326 | 82 161819 |
| **TOTAL** | **1 658 707 425** | **1 769 566 182** | **1 900 485 112** |

Table 2 below shows that the total transfers to provinces amount to R612.3 billion in 2019/20, of which the provincial equitable share (PES) amounts to R505.6 billion and conditional grant allocations to R106.7 billion. Of note is that, over the 2019 MTEF, besides the proposed reductions to some transfers, the average annual growth is still above inflation for all three spheres of government. Also added in the total conditional grant allocation of R106.7 billion is an unallocated amount of R408 million, which are funds set aside for provincial disaster relief (R130.9 million for 2019/20) and emergency housing (R276.9 million). In terms of the Bill’s framework, these funds will only be released once a disaster has been declared and an application for allocation of funds has been approved.

**Table 2: Provincial equitable share, conditional grants, forward estimates per province**

|  |  |  |
| --- | --- | --- |
| **Province** | **Column A** | **Column B** |
| **Provincial equitable share allocations** | **Conditional Grants**  | **Total Transfers**  | **Forward Provincial Equitable Share Estimates** |
| **2019/20****(R million)** | **2019/20****(R million)** | **2019/20****(R million)**  | **2020/21** **(R million)** | **2021/22** **(R million)** |
| Eastern Cape | 68 824  | 12 079 | 80 903 | 72 744 | 76 293 |
| Free State | 28 187  | 7 863  | 36 050 | 30 338 | 32 411 |
| Gauteng | 102 448  | 23 077 | 125 525 | 111 636 | 120 700 |
| KwaZulu-Natal | 106 014  | 21 137 | 127 151 | 113 370 | 120 324 |
| Limpopo | 58 965  | 9 061 | 68 026 | 62 986 | 66 779 |
| Mpumalanga | 41 428  | 8 245 | 49 673 | 44 475 | 47 389 |
| Northern Cape | 13 424  | 4 483 | 17 907 | 14 388 | 15 309 |
| North West | 34 973 | 7 551 | 42 524 | 37 694 | 40 325 |
| Western Cape | 51 291 | 12 809 | 64 100  | 55 278 | 59 115 |
| Unallocated |  | 408 | 408 |  |  |
| **TOTAL** |  **505 554** | **106 713** | **612 267** |  **542 909** |  **578 645** |

From Table 2 above, it can be noted that KwaZulu-Natal has been allocated the highest equitable share over the 2019 MTEF, followed by Gauteng. The Northern Cape receives the lowest allocation.

**2.1 Summary of the main changes to the Bill and key considerations in transfers to provinces and municipalities**

This section outlines major changes in the Bill as well as key considerations in relation to transfers to provinces and municipalities. National Treasury in its submission to the Committee indicated that the proposed reductions are far smaller than in the 2018 MTEF. The National Treasury’s submission also indicated that allocations through the Division of Revenue transfers are higher per capita/per household to rural areas. For instance, allocations to rural municipalities are R11 200 per household while those to metros average R4 900. Therefore, allocations to rural municipalities per household are more than twice as much those to metros. National Treasury further submitted that, to manage the growth of government debt, while funding priorities (including Eskom), the 2019 Budget effects reductions to some transfers as follows:

* The bulk of the reduction in the provincial transfers (R3 billion) comes from the Human Settlements Development Grant (HSDG) largely due to a history of poor performance;
* The reduction of R132.8 million from the provincial equitable share (PES) is offset by a salary freeze for provincial political office bearers; and
* There is a reduction of R500 million in 2020/21 from the Integrated National Electrification Programme (Eskom) Grant.

Furthermore, National Treasury cited two examples of how blending conditional grant funds can leverage private financing. The first is the Energy Efficiency and Demand Side Management Grant, which has been redesigned to allow grant funds to develop project pipelines and create a new market for private investors to scale-up retrofitting energy efficiency technology in public infrastructure. Savings on the cost of energy will finance the upgrades. The other relates to funding from the Comprehensive Agricultural Support Programme (CASP) Grant, which has been reprioritised to subsidise Land Bank loans to support emerging commercial farmers so that they can enter the loan market at a cheaper rate and expand production.

**3. Changes to provincial conditional grant frameworks**

In order to protect basic services funded by the PES, themajor changes in the provincial conditional grant framework are as follows:

**3.1 New grant**

The Human Resources Capacitation Grant, allocated R2.8 billion over the 2019 MTEF period, was previously a component of the indirect National Health Insurance Grant and will become a direct grant to enable provincial health departments to fill critical posts in health facilities.

**3.2 Additions to grant funds**

3.2.1 A sum of R200.3 million has been added to the Education Infrastructure Grant in the 2019/20 financial year. This allocation is earmarked for the reconstruction and rehabilitation of school infrastructure affected by natural disasters in KwaZulu-Natal.

3.2.2 In addition, a sum of R2.8 billion has been added over the medium term to the indirect School Infrastructure Backlogs Grant, meant to provide for safe and appropriate sanitation at schools.

**3.3 Expanded scope of grants**

3.3.1 New components have been 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 earmark support for community health workers. Funding for TB has also been split out into a separate component. The Grant is now referred to as the HIV, TB, Malaria and Community Outreach Grant, with a total baseline amount of R74.2 billion over the MTEF period.

3.3.2 The Provincial Emergency Housing Grant’s purpose is expanded in the 2019/20 financial year to include the funding of the repair of houses damaged by disasters, if the repairs are deemed to be more cost-efficient than relocating households to temporary shelters.

**3.4 Grant funding reprioritisation**

3.4.1 The unallocated funds within the Comprehensive Agricultural Support Programme Grant amounting to R271.5 million in the 2019/20, R295.8 million in the 2020/21 and R320.1 million in the 2021/22 financial years, have been reprioritised. These 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.

3.4.2 Due to slow spending in the personnel services component of the National Health Insurance Indirect Grant, R2.8 billion has been reprioritised from this component towards the new Human Resources Capacitation Grant over the 2019 MTEF period.

**3.5 Baseline reduction**

A baseline reduction of R3 billion (R1 billion and R2 billion from the 2020/21 and 2021/22 financial years, respectively) in the Human Settlements Development Grant is being effected over the 2019 MTEF period. This baseline reduction is meant to stabilise the growth of national debt.

**3.6 Ring-fencing of grant funds**

3.6.1 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 for this grant.

3.6.2 Through government’s efforts to intensify the upgrading of informal settlements in partnership with communities, a window with specific conditions relating to informal settlement upgrading is introduced in the Human Settlements Development Grant in 2019/20 to intensify efforts to upgrade informal settlements. Provinces will be required to work with municipalities to identify and prioritise informal settlements for upgrading in and to submit a plan for each settlement to be upgraded. This window will amount to 15 percent 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.

**3.7 Grants termination**

3.7.1 The Substance Abuse Treatment Grant and the Social Worker Employment Grant have been phased out. Over the 2019 MTEF period, the allocations of these grants are being incorporated into the PES. This will allow provinces to use their equitable share to start operating facilities built to address substance abuse and employ the social workers previously funded through these two grants.

3.7.2 The component of the Provincial Roads Maintenance Grant meant for rehabilitation of roads that are heavily used in support of electricity production, will come to an end in the 2019/20 financial year. The funding of this component will form part of the grant’s incentive baseline as of the 2020/21 financial year.

**3.8 Change from provincial to municipal transfer**

The Public Transport Operations Grant subsidises commuter bus services. The Grant helps ensure that provinces meet their contractual obligations and provide services efficiently. The public transport contracting and regulatory function may be assigned to certain metropolitan municipalities during the 2019/20 financial year. If this occurs, the allocated R20.2 billion to this Grant will be transferred directly to the assigned municipalities.

1. **Local government allocations**

The below table indicates the Bill’s local government equitable share (LGES) allocation per province. For the 2019/20 financial year, the overall equitable share allocation for local government amounts to R68.97 billion which is projected to rise to R74.68 billion and R81.06 billion for the 2020/21 and 2021/22 financial years. In the 2019/20 financial year, the major chunk of the allocation goes to KwaZulu-Natal (19.6 percent), Gauteng (19.2 percent), Eastern Cape (14 percent) and Limpopo (13.7 percent).

**Table 3: Local government equitable share allocation per province**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Local Government Equitable Share per Province** | **2019/20 allocation R’000** | **2019/20 Percentage Share** | **2020/21 Allocation estimate****R’000** | **2021/22 Allocation estimate****R’000** |
| Eastern Cape | 9 833 056 | 14% | 10 298 863 | 11 033 012 |
| Free State | 4 159 233 | 6% | 4 469 044 | 4 813 459 |
| Gauteng | 13 215 067 | 19.2% | 14 534 884 | 16 029 882 |
| KwaZulu-Natal | 13 547 961 | 19.6% | 14 652 776 | 15 880 643 |
| Limpopo | 9 418 518 | 13.7% | 10 171 280 | 11 010 753 |
| Mpumalanga | 5 944 991 | 8.6% | 6 423 707 | 6 959 075 |
| Northern Cape | 1 840 628 | 2.7% | 1 969 688 | 2 112 983 |
| North West | 5 973 290  | 8.7% | 6 471 434 | 7 027 910 |
| Western Cape | 5 240 721 | 7.6% | 5 691 650 | 6 194 102 |
| **Total** | **68 973 465** | **100%** | **74 683 326** | **81 061 819** |

**4.1 Changes to local government conditional grants**

**4.1.1 New grant**

The Bill introduces the new Integrated Urban Development Grant which is specifically targeting urban local municipalities in support of spatially aligned public infrastructure investment that will lead to functional and efficient urban spaces. The Grant aims to incentivise municipalities to invest more non-grant funding in infrastructure projects in intermediate cities. For the 2019/20 financial year, the Grant has been allocated R856.9 million and the municipalities that qualify for this Grant will be eligible to receive a performance-based incentive component.

The seven municipalities that meet the qualification criteria to benefit from this Grant in the 2019/20 financial year are Polokwane, uMhlathuze, Mogale City, Ray Nkonyeni, Sol Plaatjie, Stellenbosch and Drakenstein. But of these seven municipalities, only four qualify for the incentive component. The four municipalities are uMhlathuze (R29.96 million), Ray Nkonyeni (R7.40 million), Stellenbosch (R10.03 million), and Drakenstein (R12.85 million).

* + 1. **Additional grant funds**

A sum of R2.8 billion has been added to the Public Transport Network Grant over the MTEF for the City of Cape Town’s new phase of the MyCiti public transport network, approved through the Budget Facility for Infrastructure. This additional funding is for a new public transport corridor for the MyCiti network, which will link the under-served areas of Khayelitsha and Mitchells Plain to the city centre.

* + 1. **Expanded scope of grants**

With respect to the Energy Efficiency and Demand Side Management Grant, provision of 15 percent of the grant funds is made for municipalities to use for the Energy Efficiency in Public Infrastructure and Building Programme. The programme aims to create a market to private companies to invest in large-scale retrofitting of municipal infrastructure, which will be reimbursed through the savings on energy costs achieved.

* + 1. **Change in grant allocation formula**

The Public Transport Network Grant allocation formula which has been in existence since the 2016/17 financial year will be changed. A performance-based incentive component accounting for 5 percent of the allocation formula is being introduced in the 2019/20 financial year. For a municipality to qualify for an incentive allocation, an operational municipal public transport system must exist after it has been approved by the national Department of Transport and 80 percent of their grant allocation should have been spent in the previous financial year.

* + 1. **Ring-fenced funding**
1. A sum of R798.5 million of the Municipal Infrastructure Grant has been ring-fenced over the MTEF period for specific sport infrastructure projects identified by the national Department of Sport and Recreation.
2. A sum of R318.5 million of the indirect component of the Regional Bulk Infrastructure Grant will be ring-fenced in 2019/20 financial year. These funds will be used for bulk infrastructure needed to complete the eradication of all bucket sanitation systems in formal residential areas that were in existence in 2014.
3. A window amounting to 20 percent of the Urban Settlements Development Grant has been introduced for the upgrading of informal settlements. The window sets a minimum amount that each city must spend on informal settlement upgrades and requires cities to work in partnership with communities.

**4.1.6 Grant funding limited to existing projects**

The Department of Water and Sanitation has placed a moratorium on new projects funded through the Regional Bulk Infrastructure Grant. This has been done in order to prioritise existing projects, particularly those that have been under construction for a long time.

* + 1. **Transfer of funding between conditional grants**

Electrification in municipalities, including in the eight metropolitan municipalities, are funded through the Integrated National Electrification Programme (Municipal) Grant. However, the Urban Settlements Development Grant has been used by cities to implement electrification projects in informal settlements despite the grant funding not being allocated for this purpose. To align funding to the cities’ needs, their Integrated National Electrification Programme (Municipal) Grant allocations will be incorporated into their Urban Settlements Development Grant allocation from the 2019/20 financial year. This will allow these funds to also be used for informal settlements upgrades, making use of the skills and experience of the municipalities that implement these projects. The baseline of the Municipal Infrastructure Grantis reduced by a total of R2.9 billion over the 2019 MTEF period to fund the new Integrated Urban Development Grant.

* + 1. **Shifting funds from departmental programme to a grant**

A sum of R9.7 million will be shifted from the Department of Water and Sanitation’s accelerated community infrastructure programme, which is being phased out, to the indirect component of the Water Services Infrastructure Grant (R4.4 million) and the indirect component of the Regional Bulk Infrastructure Grant (R5.3 million) over the MTEF period.

* + 1. **Reductions to baselines**

The Bill shows the following reductions to conditional grant baseline allocations over the 2019 MTEF:

**(a) Urban Settlements Development Grant**

The baseline of the Urban Settlements Development Grant is reduced by R100 million in 2019/20 and R100 million in 2020/21 to fund other government priorities.

**(b) Integrated National Electrification Programme (Eskom) Grant**

The baseline of the Integrated National Electrification Programme (Eskom) Grant is reduced by R50 million in the 2019/20 and R550 million in the 2021/22 financial years, respectively, to fund other government priorities and manage the growth of the national deficit. This indirect grant funding is allocated to Eskom to implement projects on behalf of municipalities that lack the capacity to do so.

1. **Submissions by stakeholders**

**5.1 Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) agreed with the general thrust of the Bill, given the tight macroeconomic and fiscal environment, as well as with the new measures introduced to improve governance and performance of conditional grants. The FFC recognised that government had managed to maintain real growth in the allocation of resources to the three spheres under difficult economic circumstances, but emphasised the need for greater oversight over provincial and municipal spending. The FFC further noted the reduction in the funding of provincial conditional grants as well as their restructuring, but accepted that this was partly due to the fiscal crisis. In local government, the FFC recognised that allocations were expected to grow modestly, and recommended that attention should be paid to greater efficiency of spending. Government’s continuing efforts to reduce poverty through maintaining the increase in social grants was applauded, as was the allocations for economic development.

With regard to specific adjustments in the Bill, the FFC welcomed the addition of Clauses 9(4) and 10(11) as it would ensure that other departments mentioned in the conditional grant frameworks were also accountable, ensuring collaboration by all departments involved and affected, so that grants could be effectively managed to achieve their purpose. The FFC welcomed the revision of Clause 10(6)(b) to give the transferring officer of a Schedule 5 or 6 allocation more time to submit information in the required format, as it would give national departments enough time to prepare information for the reports to National Treasury, and may also have positive effects on the quality of reported information.

The FFC further supported the addition of Clause 17(3), as it emphasised the use of service level agreements, which was important for accountability and would assist in eliminating issues of unfunded mandates and duplication. The revision of Clause 26(3) was welcomed by the FFC, as it allowed for a more immediate response to disaster situations within the requirements of the Disaster Management Act, 2002 (Act No. 57 of 2002). The FFC also welcomed the addition of Clause 27(2)(b), as it formalised the responsibilities of departments relative to transferring officers.This was in line with previous FFC recommendations that national and provincial departments should not neglect their leadership roles in monitoring and evaluating grants and should boost their capacity to support effective grant design, and monitor and evaluate grant implementation.

The FFC welcomed the expansion of Clause 28(1) to make reference to the Appropriations Act on transfers prior to the commencement of the Division of Revenue Act, as it improved alignment and concurrence in the implementation of government legislation regulating the same function. The FFC further supported the revision of Clause 29(2), as it emphasised the importance of infrastructure maintenance; and a service level agreement between districts and local municipalities would address the issue of accountability, as it would clarify both the funding and expenditure responsibilities.

The FFC did not agree with the addition of Clause 27(5)(c), and was of the view that the Department of Cooperative Governance and Traditional Affairs should be allowed to manage the process of the Integrated Urban Development Grant (IUDG) without National Treasury approval, using the conditional grant framework.

With regard to the fiscal framework, the FFC welcomed the real growth in the equitable share allocation, especially to municipalities, where projected growth was at a real annual average of 5.1 percent per year over the next three years. However, conditional grant allocations to provinces and municipalities continued to bear the brunt of the need to cut and reprioritise spending over the next three years.

Regarding the provincial fiscal framework, the 2019 Budget provided an estimated total provincial allocation of R1.9 trillion over the MTEF, with the composition of unconditional transfers relative to conditional grants expected to remain the same. The FFC welcomed the incorporation of the Substance Abuse Treatment Grant and the Social Worker Employment Grant into the provincial equitable share (PES) allocation, but emphasised that the transition must be accompanied by greater oversight at inception, to minimise crowding out. The PES allocation was expected to maintain a nominal average growth rate of 7.2 percent over the MTEF, notwithstanding a baseline cut of R340 million in 2020/21; and the FFC welcomed the fact that new priorities were kept to a minimum. The FFC was of the opinion that thorough expenditure management should be exercised to manage the impact of cost escalation on service delivery due to low real increases in the PES. Conditional grants continued to bear the largest burden of consolidation with a projected reduction of R5 billion over the 2019 MTEF. The FFC’s stance was that funding should be reprioritised away from under-performing grants, while readjustment should not interfere with approved delivery plans.

With regard to the reduction of the Comprehensive Agricultural Support Programme (CASP) Grant by R887.4 million and these funds being transferred to the Land Bank for the implementation of a new blended finance mechanism; the FFC welcomed the fact that reprioritised funding remained within the sector, and recommended that provincial agriculture departments work with the Land Bank to implement this new mechanism. However, the FFC was of the view that the reduction in the baseline of the Human Settlements Development Grant (HSDG) by R3 billion over the 2019 MTEF, would significantly affect its outputs. Furthermore, the FFC expressed concern over the earmarking of R7.4 billion within the HSDG over the MTEF for the implementation of the informal settlements upgrade programme, as it limited provincial discretion over the implementation of housing projects. While the FFC supported the phasing back of the Title Deeds Grant into the HSDG in 2020/21, it recommended that in future, a comprehensive evaluation of whether earmarked funding had achieved its goals, as well as the challenges encountered, had to be undertaken instead of terminating a grant simply because its predetermined life span had been reached.

The FFC supported the anticipated assignment of the public transport contracting and regulatory functions to metropolitan municipalities during 2019/20 and that R20.2 billion would be transferred directly to the affected municipalities; as it was in line with previous FFC recommendations on the devolution of the public transport function. Further, the FFC recommended that a decision on devolution should be taken without further delay as this could affect planning and performance in those municipalities.

The FFC supported the introduction of a Human Resources Capacitation Grant to assist provincial departments of health to address critical vacant posts in health facilities, as human resources were key to the functioning of health facilities and this would address shortages of staff in the sector which in turn could improve the effectiveness of the National Health Insurance (NHI). The FFC further noted the additional R2.8 billion allocated to the School Infrastructure Backlogs Grant (SIBG) for the replacement of pit latrines as well as to provide water in schools, but emphasised the need for effective and efficient expenditure of the additional funds, given the historical poor spending and service delivery performance of this grant. The FFC reported that an analysis of the infrastructure value-chain revealed that a lack of oversight at key delivery points was increasing incentives to engage in fiscal misappropriation; and that the status quo mode of delivering most provincial infrastructure projects, weakened the accountability chain.

The FFC welcomed efforts by government to protect the local government equitable share (LGES), as it would go a long way in cushioning the poor against the negative effects of limited economic growth. The local government fiscal framework was allocated R414.7 billion over the 2019 MTEF. In nominal terms, the local government allocations would grow modestly by 8.4 percent over the MTEF, however well above the projected average MTEF inflation rate of 5.4 percent. In real terms, the growth of local government allocations over the next three years was positive, but growth was weighed down by the poor growth of conditional grants (due to baseline cuts in the previous budget) and of fuel levy grants, envisaged to grow by 0.05 percent and 1 percent in real terms over the 2019 MTEF.

The FFC supported the introduction of the new Integrated Urban Development Grant (IUDG) for non-metro cities with the purpose of promoting spatial integration and greater leveraging of non-grant financing, as it was in line with previous FFC recommendations that grants should follow a differentiated allocation system. The FFC further welcomed the revision of the Public Transport Network Grant (PTNG) by the introduction of an incentive element, as it was in line with the FFC’s 2014/15 recommendation which urged government to introduce performance-based incentives in the grant framework. The FFC believed this would enhance the performance of the PTNG. The revision of the Urban Settlements Development Grant (USDG) to ring-fence 20 percent to fund the upgrading of urban informal settlements, had been long overdue and was a step in the right direction. However, the FFC was of the view that the basis and adequacy of the 20 percent was unclear, and that the proposed one-year testing period for this funding window before it became a stand-alone grant, may not be enough time to draw conclusions on its performance and efficacy. The FFC welcomed the merger of the USDG and the Integrated National Electrification Programme (INEP) Grant for metros, as it would provide a basis for a holistic approach to building human settlements. The FFC supported the expansion in the scope of the Municipal Emergency Housing Grant to include repair of houses damaged in a disaster, but emphasised the need to ensure that there is a link between the increased scope and the funding.

With regard to sector-specific issues, the FFC welcomed the 7.4 percent average growth in social protection expenditure, as cushioning social assistance beneficiaries was critical in compensating the poor for the adverse effects emanating from both government spending constraints in general and the fiscal consolidation adjustment. The social protection programme therefore played a pivotal role in alleviating poverty and inequality through the provision of social grants and social welfare services for the most vulnerable groups. The FFC further supported government in introducing new service providers in the delivery of grants aimed at minimising intermediation costs and enhancing efficiency in social spending. The FFC commended government for the contribution of R100 billion to a blended-finance infrastructure fund over the next 10 years, as more reliable, modern, and affordable infrastructure would greatly enhance South Africa’s competitiveness and benefit both businesses and citizens, including the poor. The FFC also welcomed the additional allocation of R3.5 billion between 2019/20 and 2021/22 for resurfacing and strengthening non-toll national roads, as it would improve the connectivity between primary and secondary road networks and enhance the mobility for goods and people, which was critical in accessing key markets and boosting trade facilitation.

**5.2 South African Local Government Association (Salga)**

Salga reported that local government finances were in distress, as evidenced by the 145 municipalities achieving unqualified audits in 2016/17 (noted by the Auditor-General as a continued pattern of deterioration) and the fact that 40 municipalities had negative cash balances at the end of 2017/18. In addition, revenue collection rates had reportedly declined, which negatively affected the municipal financial position and increased the debt owed by municipalities to Eskom and water boards, incurring penalties. The number of municipalities adopting unfunded budgets had increased from 83 municipalities in 2017/18 to 113 in 2018/19.

It was Salga’s view that, although there was certainly money lost each year due to poor and/or mismanagement of funds, this amount was only a fraction of the funding shortfall. Nonetheless, more concerted efforts should be put in place to reduce this. In this respect, Salga alluded to the role that national and provincial government had played in facilitating financial mismanagement by neglecting their constitutional obligations in respect of the oversight of local government. In addition, the rising reporting and compliance burden on local government had significantly increased operating costs, representing money that was urgently needed elsewhere, and to little effect.

With regard to the division of revenue for 2019/20, Salga reported that local government was underfunded in the current financial year by an amount of approximately R55 billion. This included R35 billion for operating expenditure like the maintenance deficit, unfunded mandates and under-funding of the delivery of basic services from the equitable share; and R20 billion in capital expenditure compared to consolidated budget. Salga proposed that this gap could be filled by a combination of the following:

* A higher allocation of nationally raised revenue to local government;
* Restructuring conditional grants in terms of flexibility and maintenance;
* Review of municipal demarcation to focus on financial viability;
* Concerted campaign to reduce distribution losses;
* Restructuring the Social and Labour Plan (SLP) programme;
* National incentives to enforce commercial customers to settle their debt;
* The reduction of the reporting and compliance burden;
* Removing Eskom from the municipal electricity distribution market;
* Addressing confusion over the respective powers and functions between local government and other parts of government; and
* Requiring other parts of government to settle their outstanding accounts with local government, and to pay their accounts timeously.

With regard to the conceptual framework, Salga proposed that the 1998 White Paper on Local Government be completely revised, as it was silent on how a situation such as the one local government currently found itself in (where the amount of money required in transfers to make it financially sustainable was simply not available) had to be addressed. Salga was of the view that things had changed significantly during the previous 20 years and that certain assumptions underlying the White Paper were no longer accurate. These included the following:

* Actual own revenue potential fell far short of what was assumed in the White Paper. Empirical evidence showed an approximate R50 billion shortfall in the current financial year.
* White Paper assumptions about revenue collection from the on-selling of bulk services had proven to be incorrect. The targeted amount to be collected from the sale of electricity turned out to be an impossible one, through Eskom’s own strategy since 1998. Bulk service costs had increased rapidly and exceeded inflation, while levying and collecting accounts on traditional authority land had proven to be extremely challenging. Lack of maintenance (including by national departments) meant that distribution losses continued to increase, to the extent that some municipalities could never make a profit on the sale of water.
* White Paper assumptions about the ability of local government to access alternative funding options (including the municipal debt market) and alternative service delivery options had not materialised due, in part, to over-zealous regulation.
* The assumption that the LGES would be sufficient to enable municipalities to deliver a basic package of services to all low-income and indigent households in their areas, had also not been accurate.

Salga further reported that its 2018/19 Municipal Health Services Audit had highlighted certain challenges. The first of which was that municipal health services did not receive priority when it came to allocation of budget as compared to other municipal services, even though it was an essential service which could lead to loss of life and burden of diseases if not rendered. Secondly, the current equitable share allocation to district and metropolitan municipalities for municipal health and related services was R 9.31 per household per month, with not much of this allocation being transferred to municipalities given the revenue adjustment factor. In addition, the current LGES allocation for municipal health services allowed for the allocation to be channeled to other services. While the National Environmental Health Policy (2003) and World Health Organisation guidelines provided for the appointment of at least one Environmental Health Practitioner for every ten thousand people for provision of environmental health services or municipal health services in the case of local government, municipal health services staffing at local government currently had a backlog of approximately 70 percent, impacting negatively on service delivery. In light of this, Salga proposed a differentiated approach to the funding of municipal health services, which should include the review of the revenue adjustment factor on municipal health services equitable share allocation and also promote improved budgeting for municipal health services by municipalities.

Salga further reported that the current structure of conditional grants was counter-productive. This was reportedly because it was costly, particularly for smaller municipalities; the funding was unpredictable and funds were withdrawn as “punishment” for municipalities; it failed to address the actual needs in municipalities, forcing them to prioritise programmes that did not reflect local priorities; and poor maintenance was creating a huge contingent liability, undermining current service delivery efforts and the revenue model through growing distribution losses, and dis-incentivising account payments.

Salga made the following short-term recommendations to ease fiscal pressure on local government:

* Municipalities needed to have an additional allocation for maintenance as a matter of urgency. This could be achieved by restructuring (and increasing) the Municipal Infrastructure Grant to allow it to be used for maintenance, as well as allowing it to be used in any area of the municipality.
* The outstanding accounts of other organs of state must be settled in full within 90 days, that is, by the end of May 2019.

In addition, Salga recommended the following long-term policy changes to address the underlying structural problems that have created the current situation:

* The creation of a working group to critically review the current architecture and funding model for local government, based on the current fiscal reality, with the aim of drafting a new White Paper for local government.
* The entire conditional grant system should be overhauled to make it more flexible, cost-effective and efficient.
* The proposed restructuring of Eskom must take into account the impact of the current distribution model on municipal financial viability.
* The powers and functions of municipalities need to be finalised as a matter of urgency. This is the only accurate foundation on which the current LGES model can be evaluated.
* Long-term policy changes are required to address the underlying structural problems that have created the current situation.
* A working group to critically review the current architecture and funding model for local government, based on the current fiscal reality of local government, with the aim of drafting a new White Paper for local government.
* The entire conditional grant system should be overhauled to make it more flexible, cost-effective and efficient.
* The proposed restructuring of Eskom must take into account the impact of the current distribution model on municipal financial viability
* The powers and functions of municipalities need to be finalised as a matter of urgency. This is the only accurate foundation on which the current LGES model can be evaluated.

 **5.3 Western Cape Forum for Intellectual Disability**

The Western Cape Forum for Intellectual Disability (WCFID) reported that, after they had lobbied government for 13 years and finally resorted to litigation, an order was handed down by the Cape High Court on 11 November 2010 that government had failed to take reasonable measures to make provision for the educational needs of severely and profoundly intellectually disabled children in the Western Cape; and that government should forthwith take reasonable measures to give effect to the rights of these children. In response to the court order, the Learners with Profound Intellectual Disabilities Grant was introduced in 2017, together with a framework for its distribution. The purpose of this Grant was to provide the necessary support, resources and equipment to identified care centres and schools for the provision of education to children with severe to profound intellectual disabilities (SPID). While it welcomed the provision of this conditional grant, and the recognition that the court order, although limited in scope to the Western Cape, had implications for learners with SPID nationally; WCFID expressed concern that the Grant reportedly excluded the majority of the requirements of the court order. WCFID reported that learners at special care centres continued to face compound marginalisation nationally through exclusion from state schools; insufficient and inadequately trained staff who were not accredited (many staff members did not earn the Basic Minimum Wage); high turnover of staff; lack of, or inadequate, inappropriate and sometimes unsafe, transport; and home-based centres in shacks, RDP houses, uncertain leases from churches, businesses, schools and community organisations and evictions.

WCFID further raised the following concerns:

* Implementation of the Grant was not on track;
* The Grant was under-spent in some provinces; and only partially implemented in others, with funds reportedly being withheld from some provinces due to under-spending;
* The Grant did not achieve its stated aims: to provide access to education for learners with severe to profound intellectual disability who are denied admission to state schools;
* WCFID had been unable to adequately monitor DBE performance on the implementation of the Grant, as the DBE had limited its reporting to funds transferred to provinces, without reporting on funds spent by provinces.

While commending the DBE for its willingness to engage on this matter, owning its mandate, and expressing the desired commitment to make legislative, regulatory and other amendments to enable the implementation of the court order; WCFID noted with concern that the structure of the Learners with Profound Intellectual Disabilities Grant in the *Division of Revenue Bill* [B5 – 2019], was similar to that of the Learners with Profound Intellectual Disabilities Grant in the 2018 Division of Revenue Act. WCFID recommended that the Department of Basic Education (DBE) and the National Treasury restructure the Grant for the education of learners with SPID at special care centres, so that it adequately responds to the court order, in particular that it makes provision for funds to centres for the hiring of adequate staff and facilities and appropriate transport. WCFID further recommended a review of the Grant performance.

In conclusion, WCFID requested the Committees on Appropriations to do the following:

* Institute the necessary measures to monitor and evaluate the DBE’s implementation of the Grant;
* Instruct the DBE to develop a drastic turnaround strategy to ensure that the Grant is spent timeously and appropriately;
* Require the DBE to provide a comprehensive report on the implementation of the Grant annually;
* Urgently investigate the possibility of an appropriate pilot to implement the court order in two provinces (Western Cape and Gauteng) with conditional grant funds that the provincial education departments were not spending, so that, at the very minimum, the DBE provided funding to centres for adequate staff and facilities as well as transport for learners at centres; and begin a process of allocating or building classrooms for learners currently at special care centres or subsidise special care centres as state schools on private property.

**5.4 Equal Education**

In its presentation, Equal Education (EE) focused specifically on basic education financing, including allocation and expenditure trends and the performance of the national and provincial departments with regard to the delivery of school infrastructure.

EE reported that the basic education sector budget made up 14.4 percent of the total 2019/20 consolidated Budget. This made it the fifth fastest-growing line item after higher education, debt servicing costs, social development and health. Allocations towards the sector had remained relatively steady over the previous five years, keeping up marginally with inflation. However, funds allocated to the national Department of Basic Education (DBE) had, over the same period, remained slow in nominal terms. Additionally, these allocations had not kept up with inflation. While the allocations had increased year on year, the nominal rate of increase had slowed down by an average of about 4.7 percent between 2015/16 and 2019/20; leading to the DBE’s budget decreasing in real terms when inflation was taken into account. EE expressed concern over this, especially in an environment where learner enrolments and the price of goods have increased. EE questioned how the rollout and implementation of ICT (as envisioned in the 2019 Estimates of National Expenditure) could take place in a context where funding was not keeping up with inflation or where there were other more urgent and competing priorities?

EE further reported that the state of school infrastructure in South Africa continued to be a challenge for the basic education sector – and a threat to thousands of learners and teachers across the country. The national and provincial departments had in the past failed to spend what little funds was allocated to them, particularly in the case of school infrastructure conditional grants. EE felt that reduced infrastructure grants in the face of inefficient spending, woull be detrimental for those whose education experience was marred by inadequate and unsafe facilities; and it recommended that, instead of cutting funding, more should be done to hold these departments accountable and to support them in executing their mandates. According to EE, the National Education Infrastructure Management System (NEIMS) report, released annually, demonstrated that there has been a positive correlation between the promulgation of the Norms and Standards in 2013 and improvement in school infrastructure delivery. However, this had unfortunately not been at an acceptable pace. The Norms and Standards set deadlines for infrastructure delivery, the first of which was 29 November 2016, by which date there should have been no schools without water, electricity and sanitation, or schools built from inappropriate materials. EE found it unacceptable that the DBE had missed this deadline, and had also failed to completely eradicate and replace plain pit latrines, particularly in schools based in rural provinces. EE further expressed concern over the announcement in the 2018 Budget speech that the Education Infrastructure Grant (EIG) and the School Infrastructure Backlogs Grant (SIBG), which funded the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) programme, would be cut by R7 billion over the MTEF; and also that the SIBG in particular further decreased – in both nominal and real terms – between the 2018/19 and 2019/20 financial years. However, EE welcomed the additional R2.8 billion allocated specifically to eradicate pit toilets over the MTEF. EE was of the opinion that Treasury should not reduce the allocations for school infrastructure, but should provide direction to the DBE and provincial education departments on how best to spend their funds; and the DBE and provinces should deal decisively with non-compliant and poorly performing implementing agents.

With regard to early learning, EE had been hopeful when the President spoke during the 2019 State of the Nation address of the importance of investing in early learning so that more children could access early childhood development (ECD) facilities and services and that two years of this programme be made compulsory. However, EE did not see the President’s bold commitments reflected in the 2019 Budget Speech - the ECD Grant remained with the Department of Social Development, with no clarity on when or how the shift to the DBE would take place; and it also remained unclear how two years of compulsory ECD for all learners in South Africa would be funded, when the ECD Grant was projected to remain almost stagnant over the next three years. Furthermore, EE expressed disappointment that the 2019 Budget made no mention of the Early Grade Reading Study (EGRS), despite the success of the study where it was piloted in the North West Province.

With regard to the provincial equitable share (PES) formula, EE was of the view that the education component needed to be revised to consider rurality; as the cost of providing quality education in rural provinces was often much higher given their geographic location and historic under-funding. While welcoming the continued review of the PES and the inclusion of a new data-collection methodology for the education component; EE expressed concern that there was no mention of the structure – including plans and timelines – of the review.

Regarding learner transport, EE reported that it had been making submissions on the Division of Revenue Bill since 2016, calling for the creation of a learner transport conditional grant. The current provision of learner transport was funded through the PES allocations, but provinces often cited inadequate funding as one of the main reasons for not providing transport to all learners who qualify. According to EE, National Treasury and the Department of Planning, Monitoring and Evaluation (DPME) had committed to looking into developing such a grant. However, EE expressed concern over various aspects of governmnet’s study in this regard, of wich the outcome was mentioned in the 2019 Division of Revenue Bill.

In conclusion, Equal Education requested that the Committees do the following:

* Ensure that the increases to the education sectoral budget and the DBE budget keep up with inflation;
* Reverse the R7 billion cuts to school infrastructure grants over the MTEF; and ensure that the EIG and SIBG are spent effectively, with support from National Treasury;
* Migrate ECD services and funds from the Department of Social Development to the DBE, as promised by the President, and ensure that the ECD conditional grant is increased in order to accommodate the expansion of the services and include two years of compulsory ECD;
* Ensure that National Treasury provides funding towards the expansion of the EGRS. The DBE must expand the EGRS coaching intervention to other provinces;
* Ensure that National Treasury finalises its investigation into whether a conditional grant for scholar transport is feasible, and put this into effect; and
* Ensure that the equitable share formula review process time-frames are released and made publicly available and require National Treasury and the Department of Planning, Monitoring and Evaluation to provide an update on the progress made during the review process.

**5.5 Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) submitted that, in considering access to health care services by rural communities, it is important to consider the impact of pre-existing deprivation and vulnerability on service delivery. Former homeland areas, all rural, are the most deprived in South Africa with the majority of rural people surviving on less than R33 per day. This broader context affects the ability of people to access healthcare and attain good health. Historical neglect of the rural areas, poor roads and access to facilities, high unemployment, food insecurity, and high school drop-out rates are examples of the broader context affecting health outcomes.

RHAP’s submission focused on the Provincial Equitable Share (PES) and the health related conditional grants *i.e.* the Human Resources Capacitation Grant, the National Health Insurance Grant, and Health Facility Revitalisation Grant. RHAP emphasised the need for government to streghten primary healthcare services and to prioritise rural districts when drafting the budget.

RHAP made the following recommendations:

* Review the current fiscal relations with the view to improving the management and allocation of resources earmarked for health;
* Investigate the management of current supply chain management policies within provincial departments of health;
* Provinces should assess the capability of hospital and health committees to conduct facility-based oversight and ensure that the necessary funding is available to support this; and
* Government should prioritise the rural healthcare system with the establishment of a rural health task team to investigate the state of delivery, specifically in rural districts.

**5.6 Budget Justice Coalition**

The Budget Justice Coalition (BJC) comprises a range of civil society organisations including the Rural Health Advocacy Project, the Children’s Institutute at the University of Cape Town, Equal Education, Equal Education Law Centre, the Institute for Economic Justice, Oxfam, Pietermaritzburg Economic Justice and Dignity, the Public Service Accountability Monitor, Alternative Information and Development Centre, Section27, and the Studies in Poverty and Inequality Institute. The submission from BJC focussed on education, health, social development, local government, human settlements, gender budgeting, and Parliament’s oversight role.

BJC made the following recommendations related to the above-mentioned areas:

**Education**

* Reductions in school infrastructure grants over the medium-term should be reversed, as they may have an impact on government’s ability to deliver the necessary school infrastructure and address the circumstances under which learners, especially those in rural provinces, are expected to learn.
* There needs to be a concerted effort to provide both the national and provincial departments of education with the necessary support to overcome governance and administrative challenges in respect of school infrastructure delivery.
* Migrate Early Childhood Development (ECD) services and funds from the Department of Social Development to the Department of Basic Education, as promised by the President.
* National Treasury should make sure that funding towards the ECD Grant is increased in order to ensure an effective two years of compulsory ECD.
* National Treasury should provide funding towards the expansion of the Early Grade Reading Study (EGRS) and the Department of Basic Education should expand the EGRS coaching intervention to other provinces.
* Government should ensure that the time-frames of the equitable share formula review process are released and made public. National Treasury and the Department of Planning, Monitoring and Evaluation (DPME) need to provide an update on the progress made during the review process.

**Health**

* BJC recommends an increase in the level of funding for health.
* Parliament should require National Treasury to speed up the allocation of a minimum wage for Community Health Workers so that they can be paid their dues as from 1 April 2019.
* A comprehensive financial plan for the NHI should be drafted immediately, in consultation with stakeholders, and should be based on a flexible economic scenario to ensure that sustainable funding for NHI is secured whether the country experiences low or high economic growth.
* A business plan for the NHI Grant should be published to enable better public oversight.
* National Treasury should implement cost containment measures, where necessary, that comply with human rights standards of equity, non-retrogression and minimum core obligations. This should be done while supporting the provincial departments of health’s capacity to contain costs in a manner that will not undermine service delivery.

**Social Development**

* Publish clear commitment plans to increase the Child Support Grant in line with the survivalist Food Poverty Line by February 2020.
* Publish a clear road map by the 2019 Medium Term Budget Policy Statement (MTBPS) by which the State sets out its commitment to progressively realise universal coverage of social security to all in terms of headcount and in terms of adequacy of values as required by the Constitution.
* The said road map should clearly commit to rapid extension of coverage to all people between the ages of 18 and 59 and Parliament should prioritise the Social Assistance Amendment Bill in line with the court order.

**Local government**

* An expert panel should be appointed to undertake a study into the municipal revenue model and provide recommendations.
* Government should mitigate against the risks to service delivery provision if Eskom requests that the equitable share of indebted municipalities be paid directly to settle outstanding debts.

**Gender budgeting**

The Budget Justice Coalition notes the recommendations contained in the submission of civil society organisations relating to Gender Based Violence to the Standing and Select Committees on Finance and support these recommendations:

* Emphasise to the Minister of Finance and National Treasury that it has a crucial role to play in combating Gender-Based Violence when it comes to ensuring gender-responsive budgeting.
* Call on National Treasury to include a chapter on gender in the Budget Review with clear gender targets and indicators.
* Note that the DPME is currently conducting a synthesis evaluation of the relationship between government and the not-for-profit sector and to flag this in order to engage with the implications of the DPME evaluation as they pertain to the funding of NGO’s, particularly in light of the NAWOGO case.
* Engage Statistics South Africa in respect of the importance of official statistics when it comes to budgeting and the need for further work on crime statistics, and statistics that pertain to the realities of Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, and Intersex (LGBTQI) persons.

**Strengthening Parliament’s Oversight capacity**

Parliament must improve its own capacity to scrutinise budget proposals by filling posts within its research units, especially the Parliamentary Budget Office.

**5.7 Mr E Matlala**

Mr Matlala submitted that the Bill should include a section on accountability of people misusing public funds without consequences. He further submitted that the Bill should include the amendment of section 100(b) of the Public Administration Act to allow national goverment to dismiss or suspend politicians or administrators failing to account for public funds allocated to them. He was of the view that the Bill should be amended to allow for action to be taken against those found to be involved in wrongdoing and also emphasised the need for improved accountability for allocated funds.

1. **Provincial mandates**
	1. **Negotiating mandates**

6.1.1 Eastern Cape was in favour of the Bill, and raised concerns.

6.1.2 Free State was in favour of the Bill.

6.1.3 Gauteng supported the Bill, and made recommendations.

6.1.4 KwaZulu-Natal supported the Bill.

6.1.5 Limpopo was in favour of the Bill, and made recommendations.

6.1.6 Mpumalanga was in favour of the Bill, and made recommendations.

6.1.7 Northern Cape was in favour of the Bill, with recommendations.

6.1.8 North West was in favour of the Bill

6.1.9 Western Cape did not support the Bill and provided reasons.

* 1. **Final mandates**

6.2.1 Eastern Cape voted in favour of the Bill

6.2.2 Free State voted in favour of the Bill.

6.2.3 Gauteng voted in favour of the Bill

6.2.4 KwaZulu-Natal supported the Bill.

6.2.5 Limpopo did not submit a final mandate.

6.2.6 Mpumalanga voted in favour of the Bill

6.2.7 Northern Cape voted in favour of the Bill

6.2.8 North West voted in favour of the Bill.

6.2.9 Western Cape did not support the Bill.

1. **Findings and observations**

The Select Committee on Appropriations, having considered the 2019 Division of Revenue Bill and received inputs thereon, made the following findings and observations:

* 1. The Committee noted the following new and additional conditional grants in the provincial allocations:
1. The new Human Resources Capacitation Grant amounting to R2.8 billion over the 2019 MTEF, which was previously a component of the indirect National Health Insurance Grant and now will become a direct grant to enable provincial health departments to fill critical posts in health facilities;
2. The additional R2.8 billion, which is added to the School Infrastructure Backlogs Grant to provide for safer and appropriate sanitation at schools;
3. The additional R200.3 million for the Education Infrastructure Grant which is ring-fenced for the construction and rehabilitation of school infrastructure affected by natural disasters in the KwaZulu-Natal Province; and
4. The new components which are added to the Comprehensive HIV, AIDS and TB Grant. The first component will strengthen the continued fight against malaria in three provinces and the second will enable the national Department of Health to earmark support for community health workers.
	1. The Committee welcomed the reprioritisation of the unallocated Comprehensive Agricultural Support Programme (CASP) Grant amounting to R271.5 million in 2019/20, R295.8 million in 2020/21 and R320.1 million in 2021/22, which will be used for the implementation of a new blended finance mechanism developed by both the Department of Agriculture, Forestry and Fisheries and the Land Bank to extend more affordable credit to black farmers.
	2. The Committee welcomed the ring-fenced R2.5 billion for the Human Settlements Development Grant for the 2019 MTEF period to upgrade human settlements in mining towns in six provinces.
	3. The Committee noted that the Finance Linked Individual Subsidy programme will be shifted from provincial government to the National Housing Finance Corporation. This was done with a view to increasing the qualifying beneficiary uptake on the said programme.
	4. The Committee noted the following new and additional conditional grants in the local government allocations:
5. The Committee welcomed the new R856.9 million Integrated Urban Development Grant, which is introduced for urban local municipalities in support of spatially aligned public infrastructure investment which will lead to functional and efficient urban spaces; and
6. Over the MTEF, R2.8 billion has been added to the Public Transport Network Grant for the City of Cape Town’s new phase of the MyCity public transport network which will link the under-served areas of Khayelitsha and Mitchell’s Plain.
	1. The Committee noted the following redirection and/or reductions in municipal conditional grants:
7. Redirection of an amount of R2.9 billion from the Municipal Infrastructure Grant over the MTEF to fund the new Integrated Urban Development Grant;
8. Reduction of an amount of R100 million in 2019/20 and R100 million in 2020/21 from the Urban Settlements Development Grant to fund other government priorities; and
9. Reduction of an amount of R50 million in 2019/20 and R550 million in 2020/21 from the Integrated National Electrification Programme Grant to fund other government priorities.
	1. The Committee was concerned about the capacity of some provincial departments of cooperative governance to effectively support struggling municipalities, especially in the Free State Province.
	2. The Committee was also concerned about the following specific issues in the sphere of local government:
10. The culture of the non-payment for municipal services by communities, negative cash balances and debt owed by provincial and national departments, which lead to declining municipal revenue;
11. The heavy reliance on conditional grants by some district municipalities, confusion around the powers and functions in the sphere of local government; and
12. The continuous increase in the number of municipalities in financial distress, increase in the adoption of unfunded mandates, regression in the municipal audit outcomes and the state of financial management in local government.
	1. The Committee noted the reprioritisation of conditional grants away from under-performing programmes and was concerned about the implications thereof for service delivery.
	2. The Committee noted the submission from Salga calling for the Municipal Infrastructure Grant (MIG) allocations to be utilised for anything including maintenance of infrastructure by municipalities, and National Treasury’s view that a maintenance allocation is catered for in the Local Government Equitable Share allocation (LGES) and municipal own revenue.
	3. The Committee noted that an incorrect list of municipalities had been erroneously submitted to National Treasury by the Department of Energy in respect of the Energy Efficiency and Demand Side Management Grant allocations and therefore a request for a technical amendment was made by the Department of Energy.
13. **Recommendations**

The Select Committee on Appropriations, having considered the 2019 Division of Revenue Bill, recommends as follows:

* 1. In order to ensure that the new and additional provincial conditional grants are utilised and monitored according to the conditions in the Bill –

(a) The Minister of Finance, the provincial treasuries, the Minister of Health and the provincial health departments should ensure that measures, including proper monitoring and evaluation systems, are put in place to ensure that the new R2.8 billion for the Human Resources Capacitation Grant is utilised as required by the framework conditions to fill critical posts in health facilities. This monitoring should include the new components which are added to the Comprehensive HIV, AIDS and TB Grant. The National Council of Provinces (NCOP) will monitor progress on a regular basis;

(b) The Minister of Finance and the Minister of Basic Education should ensure that measures, including monitoring and evaluation systems, are put in place to effectively spend the additional R2.8 billion for the School Infrastructure Backlogs Grant to provide for safe and appropriate sanitation at schools as required by the conditions in the framework. This monitoring should include the R200.3 million ring-fenced for the rehabilitation of schools in the Kwazulu-Natal Province. The NCOP will monitor progress on a regular basis;

1. The Minister of Finance and the Minister of Agriculture, Forestry and Fisheries should ensure that the provincial departments of agriculture and the Land Bank put measures, including proper monitoring and evaluation systems, in place to ensure that the funds reprioritised from the Comprehensive Agricultural Support Programme Grant, which will be used for the implementation of a new blended finance mechanism to extend more affordable credit for black farmers, are effectively spent as required by the framework. The NCOP will monitor progress on a regular basis;
2. The Minister of Finance and the Minister of Human Settlements should ensure that measures and proper monitoring and evaluation systems are put in place for the ring-fenced R2.5 billion for the Human Settlements Development Grant to be effectively used as required by the conditions. The NCOP should monitor progress on a regular basis; and
3. The Minister of Finance and the Minister of Human Settlements should ensure that the National Housing Finance Corporation develops a realistic implementation and monitoring plan for the Finance Linked Individual Subsidy programme to increase the qualifying beneficiary uptake, and, the NCOP should monitor progress on a regular basis.
	1. With regard to the new and additional conditional grants to local government –
4. The Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs should ensure that the new Integrated Urban Development Grant is administered and implemented as required by the framework conditions without compromising service delivery. The NCOP should monitor pregress on a regular basis
5. The Minister of Finance and the Minister of Transport should ensure that the R2.8 billion which is added to the Public Transport Network Grant for the City of Cape Town’s new phase of the MyCity public transport network is administered and implemented as required by the framework conditions without compromising service delivery. The NCOP should monitor pregress on a regular basis; and

(c) The Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs (CoGTA) and provincial treasuries should ensure that provincial departments of CoGTA have the requisite capacity to support and monitor municipalities. This will reduce the prevalent instances of under-spending and poor performance of conditional grants, which ultimately lead to reprioritasation of certain grants. The NCOP should monitor progress on a regular basis.

* 1. With regard to local government in general -
1. The Committee further emphasises the need for municipalities to improve their revenue management mechanisms, billing and debt collection systems, and to ensure that their budgets are aligned to their Integrated Development Plans;
2. The Minister of Cooperative Governance and Traditional Affiars, in consultation with Salga and National Treasury, should investigate whether there is still a need for the existence of district municipalities, given their heavy reliance on conditional grants and their lack of capacity to effectively support local municipalities. The Department of Cooperative Governance should finalise its study on where there is a need for two tiers of municipalities;
3. Salga should ensure that there is value for all the training and workshops conducted in the local government, and further request the Financial and Fiscal Commission to assist by training municipal officials on budgets to better manage municipal finances and procurement processes.
	1. The Committee concurs with the National Treasury that the Municipal Infrastructure Grant (MIG) must only be used for its intended purpose. The Committee is of the view that maintenance of municipal assets must be budgeted for by municipalities as it is catered for in the local government equitable share and in their own revenue.
	2. The Minister of Finance should ensure that there is a comprehensive review of a grant to check if the intended objectives were met before the grant is terminated.
	3. The Minister of Finance should ensure that the National Treasury corrects the list of municipalities in the government gazette in terms of the Energy Efficiency and Demand Side Management Grant allocations for the 2019 MTEF as indicated in the letter from the Department of Energy.
4. **Committee’s Recommendation on the Bill**

The Select Committee on Appropriations, having considered the *Division of Revenue Bill* [B5 – 2019] (National Assembly-Section 76(1)) referred to it and classified by the Joint Tagging Mechanism as a section 76 Bill, reports that despite the technical changes on the Energy section it has agreed to the Bill without amendments.

The Western Cape reserved its position on the Bill.

1. **Conclusion**

The central objectives over the 2019 MTEF period are to stabilise the growth of debt as a share of GDP and to strictly adhere to the planned expenditure ceiling. The 2019 Division of Revenue Bill reprioritises existing funds to ensure economic growth and inclusivity. Schedule 1 of the Bill, sets out the overall amounts allocated to all three spheres of government for 2019/20, 2020/21 and 2021/22. Therefore all three spheres of government are called upon to strengthen their monitoring and evaluation mechanisms to ensure value for money. Parliament and provincial legislatures are also called upon to strengthen their oversight to ensure that these allocations are spent according to the approved plans and Division of Revenue Bill conditions. This calls for a collaborative and synergic effort from all relevant bodies, be it internal or external oversight bodies to join hands and work together to ensure that these allocations are used to push back the frontiers of poverty and ensure a better life for all South Africans.

Report to be considered.