**9. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE EASTERN CAPE PROVINCE’S EARLY CHILDHOOD DEVELOPMENT GRANT PROGRESS REPORT AND EXPENDITURE AS AT THE THIRD QUARTER OF THE 2018/19 FINANCIAL YEAR, DATED 27 MARCH 2019**

1. **Background**

After having conducted two hearings, on 16 May and 15 August 2018, on the implementation of the Early Childhood Development Grant by the Eastern Cape Department of Social Development, the Select Committee on Appropriations held a third hearing with the Province on 13 February 2019. This hearing emanated from a resolution taken by the Committee on 12 August 2018 that a follow-up hearing should be convened early in 2019. The focus for the third hearing was to assess the progress report and expenditure as at the end of the third quarter of the 2018/19 financial year. Present in the hearing were the National Treasury, Eastern Cape Provincial Treasury, the national Department of Social Development and the Eastern Cape Department of Social Development, led by the MEC.

**2. Submission by National Treasury**

On the background of the Early Childhood Development, National Treasury explained that children had rapid cognitive and emotional development during the period from birth up to the start of Grade R. As a result, Early Childhood Development (ECD) played a critical role in preparing a child to thrive in primary and secondary school. National Treasury added that ECD comprises of cognitive, emotional, physical, mental, communication, social and spiritual development of children. Over and above having a positive impact on a child’s readiness to enter the schooling system, according to National Treasury, ECD could reduce the number of times a child repeats grades at advanced levels and minimise school dropout rates. National Treasury further submitted that over the long term, ECD programmes were likely to yield many benefits, such as a productive workforce, reducing inequality across the richest and poorest quintiles and positive societal impacts. The National Treasury added that given the inadequate provision of ECD services, particularly amongst poor households, a National Integrated Plan had been adopted as a South African policy in 2005. The policy objective was to ensure that each child had access to ECD even if their parents or caregivers could not afford it. The National Integrated Early Childhood Development Policy had been approved by the Cabinet in 2015.

Following the adoption of the ECD Policy, the Early Childhood Development Grant was established in the 2017/18 financial year to extend access to ECD services to South Africa’s children. The purpose of the ECD Grant was to increase the number of poor children accessing subsidised ECD services using partial care facilities and through a subsidy component. Furthermore, this was also meant to assist existing conditionally registered partial care facilities providing an ECD programme to meet the basic requirements in order to attain full registration through a maintenance component.

The key outputs of the ECD Grant subsidy component were measured against the number of poor children that benefit from ECD services which are subsidised; number of days subsidised; and number of children attending ECD services in registered centres. Whereas the outputs of the maintenance component are measured against the number of ECD centres conditionally registered as per the registration framework; ECD centres assessed for the maintenance component; ECD centres upgraded from the maintenance component; ECD centres that moved from conditional registration to full registration as a result of the maintenance component; and the number of children that ECD centres were registered to accommodate (capacity).

With respect to the annual budget allocation, the National Treasury reported that R85.093 million (including a roll-over of R6.378 million) had been allocated to the Eastern Cape for the 2018/19 financial year. As at the end of the third quarter, after receiving receipts, R59.871 million had been transferred to the Eastern Cape and R49.561 million was spent. This translated to a percentage expenditure of 58.2 percent against the annual allocation of R85.093 million.

With regard to the subsidy component, as at the end of the third quarter, 20 429 children had benefitted for 237 days instead of 264 days, against a target of 20 472; and with regard to the maintenance component, only six ECD centres had been upgraded and/or maintained against a target of 26. In addition, 12 ECD centres were under construction and a further eight projects were still going through procurement processes. National Treasury further reported that R22.6 million in ECD Grant funds were surrendered by the Province after a roll-over of R6.3 million had been approved from 2017/18 funds.

The challenges, as reported by the National Treasury, included the late signing of Service Level Agreements between the provincial Department of Social Development and ECD centres due to non-alignment with the stipulated format. Added to that, the delays in the supply chain management processes for the appointment of contractors were likely to impact negatively on the completion of all projects at the end of the financial year. This was due to the fact that some contracts were not awarded in time due to contactors not responding to requests for quotations. Moreover, some projects were experiencing delays due to lack of connections for services such as water and sanitation.

On a positive note, the National Treasury reported that there had been improvement in spending and performance in the third quarter. However, the maintenance component of the ECD Grant was lagging behind. This could result in under-spending and under-performance at the end of the financial year. The National Treasury submitted that, as at the end of the third quarter of the 2018/19 financial year, the Eastern Cape had maintained only six out of a target of 26 ECD centre projects. This was despite the fact that the Province indicated that they would complete the targeted 26 by the end of March 2019. Based on the experienced delays, the Treasury submitted that they were sceptical that the target would be realised. The Treasury also highlighted that the Eastern Cape was not in compliance with the national norm of providing subsidies for 264 days, as they were only providing subsidies for 237 days.

**3. Submission by Department of Social Development**

The Department of Social Development (DSD) reported that the Eastern Cape had been allocated a total of R78.7 million for the ECD Grant in the 2018/19 financial year, of which R72.7 million was for the subsidy component, R3.3 million for the maintenance component, and R2.7 million for the administration. By the end of the third quarter, R48 million (66 percent) had been spent on the subsidy component; R10.1 million (30 percent) on the maintenance component; and R 588 000 (22 percent) on the administration. The Department further reported that, by the end of the third quarter, 20 429 children, against the target of 20 472, were benefitting from the Grant for 237 days per year; and two centres had benefitted from the maintenance component out of the annual target of 26. Despite the slow progress on the maintenance component thus far, the Department was confident that the target of 26 centres and 100 percent expenditure would be achieved by 31 March 2019. They indicated that, by February 2019, nine centres had been completed and work had commenced on a further nine centres. The advert for the work on the outstanding eight centres would close on 15 February, with the handover expected to take place on 1 March and all invoices expected to be paid by 26 March 2019.

The DSD reported on the challenges causing under-performance by the Eastern Cape (and the resultant mitigations), as follows:

* The reviewing of the Service Level Agreements (SLAs) with ECD centres on an annual basis had caused delays; but this was being addressed by the standardisation of the signing of three year SLAs.
* There had been non-compliance with the framework requirement of 264 days, but from the 2019/20 financial year, the Province will implement the 264 days as per the grant framework.
* An incorrect code had been used in the first quarter for the 900 children who had benefited from the Grant; but the Province had since created a journal entry to correct the misallocation.

With regard to the support it provided to the Province, the DSD reported that the allocation for the maintenance component of the Grant for 2018/19 had been reduced from R12 million to R3.3 million to enable the Province to address its challenges and fine-tune its processes. In addition, the task team continued to monitor the implementation of the project plan. Meetings between the national and provincial teams had been held on 15 to 17 October 2018 to assess progress and provide guidance on the intervention; and site visits undertaken on 3 and 4 December 2018 and 5 and 6 February 2019, to check progress. Another task team meeting had been scheduled for 25 February 2019. The DSD was of the opinion that these interventions were effective and that the Province would be able to spend 100 percent of the Grant allocation by the end of the fourth quarter.

With respect to the Grant implementation in the 2019/20 financial year, the Department reported that the 2019/20 conditional grant framework had been reviewed in consultation with provinces and finalised and signed off by the Acting Director-General (DG) and submitted to National Treasury in December 2018. Provinces were expected to submit their signed off Business Plans to the Department by 31 March 2019, and these had to be signed off by the Acting DG and submitted to National Treasury in April 2019. In addition, a meeting with provinces to prepare for the first quarter implementation was scheduled for 26 February 2019, and quarterly meetings would be held with provinces to monitor the implementation of the Grant.

**4. Submission by Eastern Cape Department of Social Development**

The submission of the Eastern Cape Department of Social Development (ECDSD) covered the ECD Grant performance since the previous engagement with the Committee on 15 August 2018; progress made on implementation of the Operational Strategy for the 2018/19 financial year; the ECD Grant performance, specifically during the second and third quarter of the 2018/19 financial year; and most importantly to reflect on the challenges the Provinces was experiencing in the process of implementing the Grant.

With respect to financial allocation and expenditure performance, the ECDSD reported that the EDC Grant allocation had been R78.715 million (excluding roll-over funds totalling R6.378 million) in the 2018/19 financial year. The total allocation was divided into three components: The subsidy component (R72.727 million); the maintenance component (R3. 336 million); and the administration (R2.652 million). As at the end of the second quarter, the ECDSD had R17.378 million (42.4 percent) of the total transferred funds of R41.026 million; and at the end of the third quarter, after having received R59.871 million, the ECDSD had spent R49.558 million (63 percent).

With respect to the revised Operational Strategy for implementation of the ECD Grant in the 2018/19 financial year, the ECDSD reported that the strategy focused on governance and reporting structures within the department, but specifically on the ECD Grant management unit. The objectives of the strategy were reported to be to address the backlog of ECD Grant projects emanating from the 2017/18 financial year; secondly to review the maintenance component operations; and under the subsidy component, to increase access to ECD centres. Most importantly, the strategy intended to safeguard compliance with the ECD Grant framework.

In order to address the backlog and implement planned ECD Grant projects, the ECDSD reported that over and above the R3.336 million allocation meant for maintenance of 26 ECD centres, a sum of R5 million had been allocated from the provincial equitable share and this was earmarked for reducing a backlog of 38 ECD centre projects to 22. The ECDSD further reported that a total of 64 ECD centres had been identified for infrastructure maintenance in the 2018/19 financial year, and only 48 (backlog of 22 projects and 26 projects identified for the 2018/19 financial year) had been implemented. This was due to the high costs as estimated by the Eastern Cape Department of Public Works (ECDPW).

On progress made regarding the maintenance component of Grant, the ECDSD reported that the recruitment of the technical staff – Construction Project Manager and two Project Managers – had been completed in November 2018. According to the ECDSD, their appointment had improved technical capacity in validating technical assessments done by the ECDPW. Moreover, the procurement strategy of the ECDSD was reported to have been revised to follow the quotation route as opposed to a tender process which resulted in a quicker turnaround time to award. Added to that, the ECDSD submitted that they had engaged with the Eastern Cape Provincial Treasury and the ECDPW to establish a database of prequalified contractors in each district to enable a more efficient process. With respect to the financial expenditure under the maintenance component, under the revised Operational Strategy for implementation of the Grant in the 2018/19 financial year, R1 554.4 million had been spent on constructing or maintaining nine projects; nine projects were still under construction and they would cost R1 815.9 million; and a further eight projects were on tender and the closing date was 15 February 2019 with an estimated completion date of 22 March 2019. The estimated costs were reported to be R1 834.3 million.

The spread of projects per region was reported as follows: Three projects under construction in the Alfred Nzo District; seven projects (four completed, two under construction and one re-advertised with a closing date of 15 February 2019) in the Amathole District; four projects (one completed, one under construction, and two re-advertised with a closing date of 15 February 2019) in the Chris Hani District; five projects (two completed and three under construction) in the Joe Gqabi District; one completed project in the Nelson Mandela Metropolitan District; and six projects (one completed and five re-advertised with a closing date of 15 February 2019) in the Sarah Baartman District.

Under the subsidy component of the Grant, the ECDSD submitted that there had been increased access to ECD centres, as 20 429 children in 1 094 ECD centres were benefiting from the Grant for 237 days in the 2018/19 financial year. According to the ECDSD, *in-loco* inspections had been conducted in these ECD centres whenever necessary in order to confirm Grant compliance. The misallocations identified in the first two quarters had been rectified by creating journals of payments received from the Grant. Over and above that, the newly adopted ECD massification strategy was a guiding systematic strategy to accelerate ECD Grant registration targeting the rural, semi-urban and urban areas, but being biased towards rural areas that were under-serviced. The targeted districts were OR Tambo and Chris Hani.

In order to improve governance and administration, the ECDSD’s Revised Operational Strategy for implementation of the ECD Grant had led to the establishment of war rooms at both provincial and district levels and progress on payment of NPOs was evaluated on a weekly basis. The provincial war room was chaired by the Deputy Director-General, whilst district war rooms were being chaired by the District Directors. Moreover, the provincial war room reported to the Head of the Department and the Executive Authority. Added to that, the ECDSD reported that monitoring of progress on NPO payments was also taking place monthly through in-year monitoring meetings. *Ad-hoc* meetings and *in-loco* inspections were reported to be conducted whenever necessary in order to confirm Grant compliance.

Moreover, the ECDSD reported that capacity of NPO management at district level had been enhanced through transfers and the appointment of 42 officials in the Alfred Nzo, Joe Gqabi and Sarah Baartman Districts. In order to ensure that a dedicated unit existed, the payment of the Grant was migrated from Programme 3 to the NPO Management Directorate effectively from August 2018. Until the final upgrade of the new system, the Procure to Pay System was being used, generating weekly NPO payment reports which were assisting in analysing and managing the progress made. The ECDSD reported the completion of a pilot project on a Revised Facilities (NGO Management) module which was aligned to the requirements of the Policy for Financial Awards and other national legislation, including the conditional grant framework. The ECDSD further reported that capturing of the NPO processes for the next financial year was already taking place in the upgraded system, which would enhance the Department’s capacity in the monitoring of NPO performance and ultimately the processing of NPO payments.

With regard to the challenges in implementing the Grant and remedial action plans to address these, the ECDSD reported that there had been delays in implementation due to the discrepancies in the assessments conducted by the Eastern Cape Department of Public Works (ECDPW). These assessments had been used as Bill of Quantities on the awarded tenders, but did not reflect the true state of the work to be done – which then incurred variations. The ECDSD reported that a Construction Project Manager for the ECD Grant and two Project Managers had assumed duties on 6 November and 12 November 2018, respectively. With this new technical capacity, re-assessments had been undertaken of the 26 ECD centres to target the completion of centres funded by the Grant. Construction was underway on some projects and some projects were currently on tender.

Another challenge was that the lower CIDB-graded contractors delayed the hand-over process and execution of the projects due to the financial capacity of their companies and the inability to submit post-award compliance requirements. To address this, the ECDSD, through the ECDPW, would develop a database of general building contractors in each district and the prequalified contractors would be requested to urgently provide quotations expediting the procurement process. The tender for this database would close on 1 March 2019.

A further challenge had been the Alfred Nzo District Business Forum stopping projects in the Alfred Nzo District. The ECDSD reported that several engagements held in an attempt to resolve the impasse had not been successful. A political intervention had since been sought through the office of the MEC. A meeting between the Department and the Business Forum took place in August 2018 to resolve the impasse and the Eastern Cape Provincial Treasury was now undertaking an investigation with regards to the allegations emanating from the complaints.

The ECDSD also reported that, during hand-over of some projects, the structures that had been awarded could not be renovated but rather required new construction. These centres were now being replaced and the 2019/20 ECD conditional grant framework made an allowance for new buildings.

The ECDSD reported that it had been allocated an amount of R5.7 million for the maintenance of 31 ECD centres during the 2019/20 financial year. The Province had engaged with the Provincial Treasury and Public Works to establish a database of pre-qualified contractors in each district to enable a more efficient process. As mentioned above, the tender for this database would close on 1 March 2019. In addition, the ECDSD would conduct a contractor workshop with contractors on the ICDP list.

**5. Observations**

Having considered the submissions by the two national departments and the Eastern Cape Department of Social Development, the Committee observed the following:

5.1 The Committee noted the reduction of the maintenance component of the Grant from R12 million to R3.3 million for the 2018/19 financial year, however the allocation was expected to increase each year according to the National Treasury.

5.2 The Committee observed the approval of the National Integrated Early Childhood Development Policy in 2015 by Cabinet to broaden access to the service and to cater for the less privileged people.

5.3 The Committee observed the following expenditure trends for the period under review, which were significantly below the 25 percent expenditure benchmark:

* The expenditure of 23 percent for the subsidy component in the second quarter that suddenly increased to 66 percent at the end of the third quarter of the 2018/19 financial year.
* The expenditure of 0 percent for the maintenance component that suddenly increased to 30 percent at the end of the third quarter of the 2018/19 financial year.
* The expenditure of 22 percent for administration at the end of the third quarter of the 2018/19 financial year.

However, the overall expenditure amounts to R1.725 million which is 63 percent of the allocated R3.336 million for the 2018/19 financial year.

5.4 The Committee observed the following challenges which contributed to the delays in expenditure and grant performance:

* The late signing of Service Level Agreements between the provincial Department of Social Development and ECD centres.
* Delays in the supply chain management processes for the appointment of contractors.
* Some projects were experiencing delays due to lack of connections for services such as water and sanitation.
* Non-compliance with the Conditional Grant Framework on the implementation of 264 days.

5.5 The Committee noted the R22.6 million in ECD Grant funds which was surrendered by the Eastern Cape Province after a roll-over of R6.3 million was approved.

5.6 The Committee observed the slow performance in the maintenance component of the Grant in which 26 projects were set for completion by 31 March 2019 but only nine projects were completed in February. The Committee was concerned about the feasibility of setting a target of completing all projects within a period of one month. The main concern for the Committee is that this could result in fiscal dumping.

5.6 The Committee noted the support provided by the national Department, who is still continuing to monitor the implementation of the project plan, and the Committee noted the improvement in performance from 0 percent to the projected 61 percent which occurred after the intervention by the national Department.

 **6. Recommendations**

Emanating from the above observations, the Select Committee on Appropriations recommends the following:

6.1 Given the year-on-year increase of the maintenance component allocation, which was highlighted by National Treasury, the Committee recommends that the increase should be properly managed and be aligned to realistic annual performance targets, which are clearly defined, achievable and time-bound. The Eastern Cape Provincial Legislature and the NCOP should monitor progress.

6.2 The national Department of Social and Provincial Department should ensure the implementation of the National Integrated Early Childhood Development Policy and the Provincial Legislature and the NCOP should monitor progress.

6.3 The national Department of Social Development, together with the Provincial Department should develop an exit strategy for a smooth handover to the Provincial Department once the intervention comes to an end, so that the Provincial Department can continue to maintain the same level of improvement.

6.4 The national Department of Social Development and Provincial Department should ensure the improvement of Grant expenditure and performance on a quarterly basis in order to avoid the *March spike* or surrendering funds at the end of the financial year.

6.5 The national Department of Social Development, together with the Provincial Department, should ensure that the following challenges are resolved:

* Delays in signing Service Level Agreements (SLAs) with the centres;
* Delays in the supply chain management process that delay the appointment of contractors;
* Projects delays due to lack of connections for services such as water and sanitation;

6.6 The national Department of Social Development, together with the Provincial Department, should ensure the completion of the eight outstanding maintenance projects without incurring fiscal dumping or wasteful and fruitless expenditure.

6.7 Even though the national Department of Social Development is monitoring the intervention and supporting it, the Provincial Legislature and the NCOP should follow up this matter until there is 100 percent expenditure with the corresponding non-financial performance outputs.

Report to be considered.