**1. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE BILL [B3 –2020] (NATIONAL ASSEMBLY – SECTION 76), DATED 17MARCH 2020**

The Standing Committee on Appropriations (the Committee), having considered the ***Division of Revenue Bill* [B3—2020]**(National Assembly), referred to it on 11 March 2020and tagged as a section 76 Bill, reports as follows:

1. **Introduction**

Section 214(1) of the Constitution of 1996 (the Constitution) requires that a Division of Revenue Act (DORA) determines the equitable division of nationally raised revenue among the three spheres of government (National, Provincial and Local). This is intended to foster transparency in the sharing of nationally raised revenue and ensure smooth intergovernmental relations. The Intergovernmental Fiscal Relations Act, No. 97 of 1997 prescribes the process for the determination of an equitable sharing and allocation of revenue raised nationally. Sections 9 and 10 (4) of this Act set out the consultation process to be followed with the Financial and Fiscal Commission, including the process of considering recommendations made with regard to the equitable division of nationally raised revenue.

In giving effect to Section 73 of the Constitution, the Money Billsand Related Matters Act, No. 9 of 2009 (the Money Bills Act) as amended by the Money Bills Amendment Procedure and Related Matters Amendment Act No.13 of 2018 was enacted. In line with Section 7(1 and 3) of the Money Bills Act and Section 27 of the Public Finance Management Act No. 1 of 1999; the Minister of Finance tabled the 2020National Budget including the 2020 Division of the Revenue Bill (the Bill) on 26 February 2020. The Bill was then referred to the Committeeon 11 March 2020 in line with Section 9 (1) of the Money Bills Act.

Subsequent to the Bill being referred to the Committee, the Committee received a briefing on the Bill from the National Treasury and also had engagements with the Financial and Fiscal Commission as required by Section 9 (7) (a) of the Money Bills Act. Furthermore, the Committee also consulted with the Parliamentary Budget Office and received a briefing from the South African Local Government Association as required by Section 214 (2) of the Constitution of the Republic. In line with section 9 (5) (b) of the Money Bills Act, the Committee is required to hold public hearings on the Division of Revenue Bill. To this end, adverts calling for public submissions on the Bill were published in both national and local print media from 23 to 28 February 2020. Submissionsfrom the following organisations or interest groups were received:

* Pietermaritzburg Pensioners Forum;
* Amandla.mobi;
* Organisation Undoing Tax Abuse;
* Rural Health Advocacy Project; and
* Mr MG Buthelezi.

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 the report.

1. **Division of Revenue Bill 2020**

The central objectives of the 2020 Medium Term Expenditure Framework (MTEF) period are to stabilise growth of government debt as a share of Gross Domestic Product (GDP) and strictly adhere to planned expenditure ceiling. Furthermore, the 2020 MTEF emphases on the need to reduce public sector spending as a share of GDP, improve the composition of spending by reducing the growth of the public sector wage bill, and ensure sustainability of the public debt. However, the most important public spending programmes that help poor South Africans, contribute to growth and job creation have been prioritised and protected from major reductions. The 2020 Division of Revenue reprioritises existing funds to ensure that these government fiscal objectives are met. Table 1 below indicates overall allocation to national, provincial and local spheres of government for 2020/21, 2021/22, 2022/23 financial years respectively.

**Table 1: Equitable Division of Revenue Raised Nationally**

|  |  |  |
| --- | --- | --- |
| **Spheres of Government** | **Column A** | **Column B** |
| **2020/21 (R’000)** | **Forward Estimates** |
| **2021/22 (R’000)** | **2022/23 (R’000)** |
| National allocations**1,2** | 1 152 839 556  | 1 195 617 107  | 1 245 458 677 |
| Provincial allocations |  538 471 528  |  573 989 526 |  607 553 532 |
| Local government allocations |  74 683 326 |  81 061 819 |  87 212 717 |
| **Total allocations** | **1 765 994 410**  | **1 850 668 452** | **1 940 224 926** |

1. *The National share includes conditional allocations to provincial and local spheres, general fuel levy sharing with metropolitan municipalities, debt-service costs, the contingency reserve and provisional allocation*
2. *The direct charges for the provincial equitable share are netted out*
	1. **Main Budget Allocation**

Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of nationally raised revenue are allocated to the national government, 43 per cent to provincial government and 8.8 per cent to local government. Furthermore, it worth noting that the proposed changes to the public sector wage bill are not yet reflected in the allocations to the national and provincial government department allocation or in the equitable share allocation in the Division of Revenue Bill. Once these changes have been agreed on in the Public Service Co-ordinating Bargaining Council, they will be implement in the 2020/21 adjustment budget. This will reduce the national and provincial share of the division of revenue and increase that of local government in relative terms. The share in the Division of Revenue is also sensitive to the increase of support of public entities, which is provided for at national government and this explains the somewhat larger share in 2019/20. Table 2 below indicates the overview of the division of nationally raised revenue between the period 2016/17 and 2022/23. The Division of Revenue Bill is redistributive as funds allocation are based on the demand for public service in each province and municipality, and not its contribution to national revenues.

**Table 2: Division of Nationally raised revenue (2016/17-2022/23)**



1. *Includes proposed compensation reductions, support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations*
	1. **Overall changes to the clauses in the Bill**
		1. **Built Environment Performance Plan (BEPP):***Section 9, 10 and 14* of the Bill are changed to allow metropolitan municipalities to be exempted from the Built Environment Plan requirements for *Schedule 4, 5, 6* and infrastructure grant allocations to these municipalities once planning reforms have been institutionalised. These institutionalised planning reforms includes evidence of a clear content, practices, process and approach in a built environment performance plan.
		2. **Transitional measures for municipal election in 2021**: *Section 38* of the Bill regulate how the equitable division of local government share among municipalities (section 5) and conditional allocation (section 8) will be regulated in 2021/22 and 2022/23 following a redetermination in terms of section 21(1)(b) of the Municipal Demarcation Act.
		3. **Improving grant administration, responsibilities for national department**
			1. *Section 17(2)* of the Bill provides for the creation of components within a conditional grant and allow funds to be shifted from one component to the other component within the grantafter consulting the receiving office and getting approval from the National treasury. However, that must be in accordance with the applicable appropriations legislation.
			2. *Withholding of equitable division of provincial share among provinces and municipal share among municipalities****:*** *Section 18(4)(iii)*of the Bill requires that national departments set a timeline for when the province or municipality must respond if they disagree with the proposed withholding of Schedule 4 or 5 allocation.
		4. **Improving grant administration, responsibilities for provinces and municipalities**
			1. *Section 12(3)(b)*of the Bill requires that provinces and municipalities must report the amount withheld or stopped in terms of *section 18 and 19*, provide reasons for such and provide remedial actions that they have taken to address the matters that resulted in stopping or withholding of allocations.
			2. *Human Settlement Development Grant (HSDG): Section 12(6)(a)*of the Bill requires that provinces must consult with affected municipalities before gazetting the HSDG transfers to them and a set payment schedule.
			3. *Financial statements of provincial government departments: Section 15(3)(b)* of the Bill requires that the financial statements of provincial departments receiving schedule 4, 5 and 7 must include the total amount of allocation received that were budgeted to be transferred to municipalities and public entities respectively and also report reasons for any discrepancies.
			4. *Section 30(5)* of the Bill,allows for amendments to be made to the payment schedule between provincial departments, and any municipality, school, hospital or public entity if there is an agreement between the provincial department and the recipient.
	2. **Summary of the main changes to the Bill and key considerations in transfers to provinces and municipalities**

Following the expenditure reductions made in the 2019 MTPBS, further changes were made both on the Provincial and Local Government Equitable Share, namely;

* The provincial equitable share has been reduced by R7.3 billion through a 2 per cent reduction in all non-compensation spending per year and R5.2 billion reductions in compensation of employees.
* Direct conditional grants to provinces have been reduced by a net R13.3 billion, as the reduction of R16.2 billion is partly offset by reprioritisation of R2.9 billion.
* The local government reductions comprise of R3.2 billion from the local government equitable share, and a R16.8 billion reductions to direct conditional grants.

The large part of funding reduction in the 2020 MTEF has been on conditional grant allocation and all direct conditional grants have been reduced, ***except the early childhood development grant*** and ***the learner with profound intellectual disabilities grant***. National Treasury has indicated that conditional grants allocation has been reduced as part of government’s effort to reduce growth in government expenditure and to ensure sustainable public debt. However, to manage and minimize the impact on service delivery, reductions in grant allocations takes into account the following key considerations:

* Past spending and performance;
* Whether the grant fund salaries, medicine and food; and
* Whether there has been significant real growth in allocations in recent year.

Larger reductions have also been made to grants allocations to urban municipalities, which have more capacity to offset the reductions through by increasing their own revenue sources. In order to meet government policy objectives while remaining within the revised expenditure ceiling, existing budgets have been reprioritised to meet government’s policy goals as follows;

* Increasing the per-child subsidy for early childhood development services from R15 per day to R17 per day in 2020/21, rising to R18.57 per day in 2022/23.
* Addressing the shortfalls in the funding of community outreach services in the health sector.
* Supporting the continued rollout of sanitary products to learners from low-income households, a total of R652 million has been added to continue rolling out the Sanitary Dignity Programme.
* Over the 2020 MTEF period, a total of R398 million has been reprioritised from national government to provinces to continue employing social workers in areas with high level of gender based violence, substance abuse and social problems affecting children.
* Over the 2020 MTEF, an additional R315 million has been reprioritised to continue supporting non-profit organisations in implementing the social behavioural change programmes to address social and structural drivers of HIV, TB and sexually transmitted infections.
* Repairing the wastewater treatment infrastructure in the Vaal River System has a total allocation of R400 million in 2020/21.

The reprioritisation complements the baseline that provides R2.07 trillion to provinces and R426.4 billion to local government in transfers of the 2020 MTEF to fund core government priorities including basic education, health, social development, roads, housing and municipal services.

1. **Overall Conditional Grant Allocations to Provincial Government**

*Direct conditional grants* baseline to provinces increases from R110.8 billion in 2020/21 to R117.9 billion and R123.1 billion in 2021/22 and 2022/23 financial years respectively. *Indirect conditional grants* baseline increase from R4.1 billion in 2020/21 to R4.8 billion and R5.1 billion in 2021/22 an 2022/23 financial years respectively.

* 1. **Major Changes to the provincial conditional grant framework**
		1. *Early Childhood Development Grant (ECDG)*: over the MTEF period, a total of R1.4 billion to the ECDG to increase the subsidy paid for children receiving early childhood development services and to provide for additional children to access this services.
		2. *Comprehensive Agricultural Support Grant (CASG)*: a total of R255 million over the MTEF has been reprioritised out of this grant for the Department of Agriculture, Land Reform, and Rural Development to support animal and plant health in order to support export. This reprioritised funding will be used to improve laboratory capacity, border control and inspection by the department.
		3. *Provincial Road Maintenance Grant (PRMG)*: a total of R500 million has been reduced from the PRMG in 2020/21 and this amount has been set aside as a provincial allocation to fund disaster recovery projects. Furthermore, a total of R1 billion and R1.3 billion in 2021/22 and 2022/23 has been reduced from this grant.
		4. *Ilima/Letsema Indirect Grant*: a total of R36 million has been shifted from the *Ilima/Letsema direct Grant*to the newly established direct component of the grant,to fund the National Food and Nutrition Survey conducted by Human Science Research Council. This grant aims to establish a baseline for poverty and food security that can be used to improve the targeting of poverty-relief programmes.
		5. *National Health Insurance Direct Grant (NHIDG)*: over the 2020 MTEF, a total of R900 million has been allocated to the *national health insurance direct grant* to continue with the contracting of health professionals to continue with the implementation of the national health insurance.
		6. The introduction of a separate *Informal Settlement Upgrading Partnership Grant (ISUPG)* has been delayed until 2021/22 and consequently, a total of R3 billion2020/21 indicative allocation has been shifted back to *Human Settlement Development Grant (USDG).*
		7. *Health Facility Revitalisation Direct Grant (HFRG)*: a total of R199 million has been shifted from the *National Health Insurance Indirect Grant* to the *HFRG* for the completion of a project in Limpopo.
		8. *Education Infrastructure Grant***:**over the 2020 MTEF, the education infrastructure grant is reduced by a total of R1.9 billion, increasing from R459 million in 2020/21 to R616 million in 2021/22 and R775 million in 2022/23.
		9. *School Infrastructure Backlog Grant* is reduced by R123 million over the MTEF, increasing from R33 million in 2020/21 to R44 million and R46 million in 2022/23 financial year respectively.
1. **Overall Conditional Grant Allocations to Local Government**

National government allocates funds to local government through a variety of conditional grants that falls within two main groups (infrastructure and capacity building). Over the 2020 MTEF, the total value of conditional grants directly transferred to local government increases from R43.8 billion in 2020/21 to R46.2 billion in 2021/22 and R48.1 billion in 2022/23 financial year.

* 1. **Major Changes to the Local Government Conditional Grant Framework**
		1. *Regional Bulk Infrastructure Grant (RBIG)*:a total of R400 million in 2020/21 has allocated to the regional bulk infrastructure grant to assist in funding the rehabilitation of wastewater treatment infrastructure in the Vaal River System. These funds have been shifted from the *Municipal Infrastructure Grant (MIG)*, *Water Services Infrastructure Grant (WSIG)* and the *Urban Settlement Development Grant (USDG)*. In addition to the shifts from the local government grants, a total of R250 million has been added to the *regional bulk infrastructure indirect component of the grant* in order to address pollution into the Vaal River System.
		2. *Neighbourhood Development Partnership Direct Grant***:** Over the 2020 MTEF period, a total of R160 million has reprioritised to the indirect component of the grant.
		3. The introduction of a separate *Informal Settlement Upgrading Partnership Grant (ISUPG)* has been delayed until 2021/22 and consequently, a total of R3 billion 2020/21 indicative allocation has been shifted back to *Human Settlement Development Grant (USDG)*.
		4. *Integrated Urban Development Grant*: over the 2020 MTEF, a total of R166 million has been shifted from the *Municipal Infrastructure Grant (MIG)* to the *Integrated Urban Development Grant*. This occurred after the Steve Tshwete Local Municipality applied to be moved from the municipal infrastructure grant to the integrated urban development grant, and the municipality met the requirements.
		5. *Public Transport Network Grant(PTNG)*: over the 2020 MTEF period, a total of R1 billion in 2020/21, R1.6 billion in 2021/22 and R1.7 billion in 2022/23 is reduced from the *PTNG*. These reductions emanate from the immediate exclusion of Mbombela, Buffalo City and Msunduzi from the grant due to a lack of progress in rolling out of services as required by the grant framework.
1. **Stakeholders and Public Inputs on the 2020 Division of Revenue Bill**

This section provides an overview of the comments on the Bill from the Financial and Fiscal Commission and the South African Local Government Association. Furthermore, this section will also provide a summary of pubic submissions received on the Bill from other interest groups.

**5.1. Financial and Fiscal Commission**

The FFC’s submission on the Bill included an overview of the baseline adjustments to the 2020 division of revenue when compared to the 2019 budget, the division of revenue between the three spheres of government, trends in funds available to provinces and local government, specific changes to provincial conditional grants, local government conditional grants, and government’s responses to the FFC recommendations.

The FFC submitted that in terms of baseline adjustments to the 2020 division of revenue when compared to the 2019 budget, an additional amount of R24.597 billion in 2020/21 is allocated to national departments for financial assistance to SOEs, provincial baseline allocations are reduced by R7.858 billion whilst local government baseline is reduced by R5.325 billion in the 2020/21 financial year.

The FFC further submitted that whilst baselines have been adjusted downward, substantial funds still remained available to provinces and local government and key budget lines remain somewhat protected against the effects of inflation. Given the trends in the division of revenue, the FFC emphasised the need for urgency of turning around the current economic growth trends as well as governance trends that lead to unproductive use of resources. There was as such an urgent need for more effective support in turning around struggling municipalities and provinces.

The FFC made the following comments in terms of the provincial conditional grants allocations over the 2020 MTEF:

**Educationgrants:** FFC expressed concerns about the baseline reductions to the Education Infrastructure Grant and the Schools Infrastructure Backlogs Grant over the 2020 MTEF given the importance in addressing education sector infrastructure backlogs. It recommended that the status quo of the infrastructure delivery value chain needed to be reviewed in line with its findings and recommendations.

**Social Development grants:** The FFC welcomed the additional funds to the Early Childhood Development (ECD) Grant over the 2020 MTEF as this will ensure more access for children to ECD including basic infrastructure.

**Housing Grants:** The FFC supported the ring-fencing of R544 million in the Human Settlements Grant to upgrade settlements in mining towns in six provinces. The FFC also noted the termination of the Title Deeds Restoration Grant in 2020/21 however it reiterated the need for a review of the grant to determine whether its goals, targets and targets have been achieved.

**Health grants:** The FFC welcomed the shifting of R199 million in 2020/21 and R5.7 million in 2021/22 from the NHI: Health Facility Revitalisation Grant (HFRG) indirect grant to the direct HFGR grant for the Pietersburg Hospital Project. This change is in line with the FFC’s previous recommendations that there was a need to streamline conditional grants with the same purpose in order to avoid duplication.

The FFC also supported the merger of the Human Resources Capacitation Grant and the Health Professions Training and Development Grant to create the Statutory Human Resources Training and Development Grant. The merger of these grants with the same purpose would minimise inefficiencies associated with overlaps and duplication. The FFChowever noted with concern the funding of some posts that were previously funded from the Provincial Equitable Share (PES) and suggested that these posts should be clearly stated in order to avoid confusion and duplication that would result in wasteful expenditure.

The FFC noted with concern the proposed reprioritisation of R800 million in 2020/21 from the HIV/AIDS component of the HIV/AIDS, TB, Malaria and Community Outreach Grant to the community outreach component to cover the shortfall in the salaries of community healthcare workers. It further expressed concerns with the proposed merger of the Human Papillomavirus Vaccine (HPV) Grant to the aforementioned grant as it had too many objectives which could hamper the realisation of its targets and intended outcomes. The FFC reiterated its previous submission with regard to the HPV Grant that proper financial planning and infrastructure was needed in relation to the roll-out of such a vaccine grant.

**Agriculture grants:** The FFC welcomed the shift of R36 million from the direct Ilima/Letsema Grant to the newly created indirect Ilima/Letsema Grant to fund a survey that would improve targeting of poverty relief programmes.

The FFC cautioned against the extension of the scope of Land Care Programme Grant, other than for its intended objectives and to also guard against duplication. The 2020 Budget Review states that provinces are encouraged to use this grant to create jobs through the Expanded Public Works Programme (EPWP).

Regarding baseline reductions in local government grants, the FFC expressed concerns about the proposed cuts in infrastructure grants and submitted that with the current struggling economy, it was important that government pursued the infrastructure led growth strategy more vigorously. Furthermore, FFC has noted that reductions were mainly targeted at poorly performing grants in terms of expenditure, however the FFC’s initial analysis only found the INEP (Eskom) Grant to be a good candidate for reductions due to its under expenditure between 2015/16 and 2018/19.

In terms of government’s responses to the FFC’s recommendations for the 2020/21 division of revenue, concerns were expressed that only 8 of the 19 recommendations were responded to.

**5.2. South African Local Government Association**

The South African Local Government Association (SALGA) commented that the Bill perpetuated the continuation of financial incapacitation of local government which has been decried for many years. SALGA further submitted that the Bill, in its current form, placed an unaffordable burden on struggling ratepayers. The financial resources available to municipalities have fallen short of the demands on municipalities for services and infrastructure over the past 20 years. Thishas been further complicated by the current state of the economy, which was characterised by limited tax revenues, retracted economic growth and rising debt levels.

SALGA proposed the following as a way forward in terms of the Bill:

Over the short term

* The Bill should ensure that in cases where functions are delegated/assigned to municipalities, funding for those functions must be appropriated directly to those municipalities in the Division of Revue Bill;
* The Bill must provide for (i) the creation of effective capacity to support municipalities to root out and prevent corruption, and (ii) a mechanism to support municipalities to build technical, managerial and leadership capacity.

Over the medium term

* A process of review of the division of revenue between the three spheres of government;
* An opportunity for SALGA to participate in the Budget Forum Lekgotla as mentioned by the Minister of Finance;
* Parliament to fulfil its oversight function to ensure that stakeholders remain fully accountable in relation to the commitment to review the division of revenue through the Budget Forum Lekgotla process; and
* Discussions on the policy changes at the Budget Forum Lekgotla in order to leave all stakeholders in a better position to come up with a more equitable division of revenue from 2021 onwards.

**5.3. Pietermaritzburg Pensioners Forum**

The Pietermaritzburg Pensioners Forum (PMBPP) submitted that the Corporate Income Tax has decreased from 34.55 per cent in 2010 to 28 per cent to date which was unacceptable considering the ever-shrinking *fiscus*. Furthermore, it made reference to the research study titled Southern Africa – Towards Inclusive Economic Development where it is reported that South Africa was losing an estimated R7 billion a year due to profit shifting by multinational corporations. Thus on top of paying low taxes, corporates are also avoiding paying taxes.

The PMBPP also submitted that those who are wealthy were not paying their fair share of taxes. It submitted that the implementation of a Wealth Tax would help mitigate the extreme levels of wealth inequality in South Africa.

In light of the above, the PMBPP recommended that a Wealth tax should be implemented and that the Corporate Income Tax be increased in order to give the old-age grant pensioners R2500 per months and a 13th cheque in December. It submitted that adequate grants could play an important role in driving increased productivity, job creation and overall economic growth.

**5.4. Amandla.mobi**

Amandla.mobi submitted that the 2020 budget proposals failed to provide a straightforward plan with a financial breakdown on how government planned to fight against Gender-based Violence (GBV) in South Africa. It made reference to the commitment made by the President of the Republic of South Africa (the President) to have a resourced, implemented and monitored National Strategic Plan on GBV and femicide. These commitments were made in the Declaration of the Presidential Summit Against Gender-based Violence and Femicide where an amount of R1.1 billion was mentioned to deal with these issues however, no mention has been made of this amount since.

Amandla.mobi also made reference to an additional R15 million that would be set aside for a National Council to combat GBV and femicide according to the 2020 budget. The organisation called for more clarity to be provided by government around the R15 million and also submitted that this amount was not in line with the R1.1 billion which the President mentioned in the above-mentioned declaration.

Whilst Amandla.modi commended the work done around the Ministerial handbook where there are reductions in perks for Members of Executive Council and Ministers, it was of the view that this was not enough. It proposed an increase in Corporate Income Tax and reductions in fruitless and wasteful expenditure.

Amandla.mobi recommended that government provides a straightforward plan with a financial breakdown on how government planned to fight against Gender-based Violence (GBV) in South Africa.

**5.5 Organisation Undoing Tax Abuse**

Regarding local government, OUTA recommended that among the structural reviews to be undertaken, alternative and existing revenue models for municipalities should be critically analysed and simulated. This exercise should include a thorough review of international literature to determine what types of rates, taxes and revenue generation mechanisms other countries use at a local level.

Regarding the District Development Model, OUTA submitted that while it welcomes that there are efforts underway to address incoherent planning and implementation, there is little clarity as to how the new District Development Model will itself work and will be funded. It argued that South Africa’s planning is already well-developed and that extensive planning is done at all levels of government. More planning without follow through and cost-effective spending of budget allocations will not address the levels of frustration that South Africans experience with failures in service delivery.

With regard to local government, OUTA submitted that there was an urgent need for better value for money from local government. While it may easily be argued that local government needs more rather than less funding, as this is the point of delivery of essential services and there are significant backlogs to be overcome, the reality is that local government financial management remains disastrous. There is no guarantee that money will be properly spent in the majority of municipalities thus OUTA emphasised the need better value for money which required better oversight and, more importantly, real consequences for repeated delinquency i.e. non-compliance with the PFMA, MFMA, and AGSA findings and recommendations.

Whilst OUTA welcomed the inclusion of funding for the Vaal River clean-up and Emfuleni sewerage system improvements, it was of the view that this was delayed and will go through the dysfunctional Emfuleni Local Municipality. It also submitted that it was unfortunate that the R650 million through the Regional Bulk Infrastructure Grant for upgrading the Emfuleni sanitation system and cleaning up pollution in the Vaal River had been cut from grants intended for water delivery.OUTA recommended that the Committee look carefully at the funding for the this crucial and much-delayed work, and ensure that it is properly spent and accounted for.

Regarding improved spending patterns, OUTA recommends that the Appropriations Committees request that National Treasury undertake closer monitoring of fiscal dumping. The committees may wish to invite National Treasury to present an analysis of the final quarter of the prior financial year’s spending in which it identifies which departments have had surges in spending in the last month of the year and from which sub-programmes’ potential fiscal dumping is emanating.

OUTA requested that the Appropriations Committees recommend to National Treasury that it specifically consider measures to address the procuring of Information Technology services. Specifically, Treasury should examine whether the procurement regulations and guidelines are geared such that departments are dealing in the most cost-effective manner with considerations of software intellectual property rights and being locked into systems which require repeat licences after an initial outlay to implement the system.

OUTA noted that at the same time as National Treasury is ensuring that municipalities reduce underfunded budgets, it is also reporting that many local governments adopted unrealistic spending plans of a different nature, where as a result, 211 municipalities underspent their operating budgets and 214 municipalities underspent their capital budgets. This speaks to poor financial management capability and perhaps of more concern to citizens, poor capacity to deliver planned programmes, projects and services. In light of the above OUTA recommended that the provincial equitable share and other usual distribution mechanisms in mainstream intergovernmental fiscal relations be reviewed in light of worsening audit outcomes published by the Auditor-General of South Africa.

OUTA highlighted the relative silence on provincial oversight structures and allocations while harsh consequences are being faced by municipalities that repeatedly underperform. OUTA submitted that a key area of provincial underperformance is in their own roles in holding local government to account. Over and above quantitative adaptations or reductions, OUTA recommended that the Committee raises the neglected matter of structural adaptations that must go hand in hand with punitive reductions to appropriations.

Regarding the NHI, OUTA expressed concerns about the governance arrangements proposed for the NHI Fund in the National Health Insurance Bill that has been tabled. The governance arrangement for the NHI fund will pool a massive amount of public finances for spending on health. The governance arrangements have to be strengthened to mitigate against corruption or we will not be looking at quality health care for all as the bill envisions, but at the paving of the way to more looting of public resources.

Regarding Schools Infrastructure Backlog Grant, OUTA recommended that more information be included in the budget i.e. a list of new schools completed, those started but incomplete, and those where sanitation and/or water was provided. These schools should be named. There should also be a list of schools where this work is planned for the upcoming year.

While National Treasury is having to make tough choices about spending levels, OUTA is concerned that it may be forgetting that the quality of South Africa’s basic education is linked to the country’s ability to be globally competitive on an economic level. Learners being educated in structurally unsound schools that have inadequate sanitation facilities and whose numeracy and literacy levels are not adequate must somehow enter the job market in today’s global village. OUTA recommended that National Treasury should look at the number of public entities that have proliferated and determine how many of these are funded off government department’s budgets, have overlapping mandates and are wasting public funds.

Regarding water and sanitation, OUTA recommended that the Committees on Appropriations engage with the Portfolio Committee on Human Settlements, Water & Sanitation to assess the persistent adverse findings reported by the Auditor General in this Department. It also recommended that the Department of Performance Monitoring and Evaluation should conduct an Expenditure Review on the “War on Leaks” programme. Given all the challenges facing the delivery of water and sanitation services, OUTA recommended that the Appropriations Committees clamp down and allocate grants conditionally.

**5.6 Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) commented on the Bill in writing and gave an assessment of the impact of the current fiscal space on social spending. The submission further gave an overview of the spending on health care over the 2020 MTEF and gave assessment of human resources for health services. The RHAP also commented on the improvement of efficiencies within the health sector and welcomed that National Treasury and the Department of Planning, Monitoring and Evaluation would undertake a new round of expenditure reviews to identify cost savings and improve efficiency. The RHAP made the following recommendations:

* That the Committee engage the Parliamentary Budget Office and Financial and Fiscal Commission about research on the fiscal space to implement the NHI.
* That the Committee engage National Treasury about making the actuarial model and costing studies on the NHI available to the public.
* That the rural adjuster be included in budgeting guidelines issued by National Treasury to provinces.
* That the Committee requests National Treasury to publish all health infrastructure projects being considered and that the Budget Facility for Infrastructure develop a mechanism to prioritise rural infrastructure in order to address the infrastructure inequality gap.
* That the Department of Health in collaboration with National Treasury provide guidance through policy on how provinces are expected to protect critical posts at times of spending reductions.
1. **Findings and Observations**

The Standing Committee on Appropriations having considered the Division of Revenue Bill [B3-2020] and received inputs thereon found the following:

* 1. The committee is encouraged by the provisions made in section 38 of the Bill which caters for transitional measures for the 2021 1ocal government elections. The committee views this as an important step in anticipating any changes that may be as a result of changes to municipal demarcations in line with processes that may follow a redetermination in terms of section 21(1)(b) of the Municipal Demarcation Act.
	2. The Committee notes with concern that direct conditional grants to provinces is reduced by a net of R13.3 billion. The committee is of the view that most of the provincial grants to provinces are intended to address key service delivery challenges in areas like education, health, roads and key infrastructure for the previously disadvantaged and needy.
	3. The committee welcomes the increase in the subsidy for Early Childhood Development (ECD) per child from R15 to R17 per day in 2020/21, increasing to R18.57 in 2022/23.
	4. The Committee welcomes the R652 million allocated for the Sanitary Dignity Programme for the procurement of sanitary products for low-income households
	5. The Committee welcomes the R398 million that has been reprioritised from national government to provinces for the employment of more social workers in areas with high levels of gender based violence, substance abuse and social problems affecting children over the MTEF. The Committee supports these government efforts in helping victims of abuse, particularly women and children, while also acknowledging government’s effort in dealing with substance abuse in societies which in most cases result in abuse against the vulnerable groups.
	6. The Committee welcomes the additional funding allocation of R315 million reprioritised to continue supporting non-profit organisations in implementing behavioural social changes programmes dealing with HIV, TB and sexually transmitted infections. Though the Committee supports these programmes offered by the non-profit organisations, National Treasury is encouraged to continue monitor spending on these programmes to ensure government receives value for money and measures should be put in place to ensure that corruption is eliminated
	7. The Committee welcomes and is encouraged by government’s addition of R1.4 billion over the MTEF for the ECD Grant in order to increase the subsidy paid per child receiving early childhood services and to province for additional children to have access to these service.
	8. The Committee is concerned about the total allocation reduction of R2.8 billion over the MTEF for the Provincial Road Maintenance Grant. The committee is concerned by these reductions due to the poor state of provincial roads in South Africa. The Committee is also concerned because by National Treasury’s own admission in the 2020 Budget review (p.69), itacknowledges that provinces do not have large significant tax powers and are dependent on transfers through the Division of Revenue, this therefore renders the reductions to these important allocations to provinces problematic.
	9. The Committee notes withconcern the R1.9 billion reductions on the Education Infrastructure Grant over the MTEF. The Committee is of the view that school infrastructure is a very important component in the learning and culture function of government; therefore, reducing the Education Infrastructure Grant casts doubts on government’s ability to eradicate the education infrastructure related challenges in the interest of the poor majority.
	10. The Committee noteswith concern that there is a R123 million reduction in the Schools Infrastructure Backlogs Grant over the 2020 MTEF. There is a general consensus in South Africa that public schools’ infrastructure is poor in rural areas.Therefore, reducing this grant is not sending a positive message to those public schools who are in need of critical school infrastructure.
	11. The Committee notes with concern theR4.3 billionreductions in the Public Transport Network Grant over the 2020 MTEF. The Committee’s concerns emanate from the fact that the provision of affordable public transport is one of the key objectives of the democratic government in an effort to address the apartheid spatial planning. The immediate suspension of Mbombela, Buffalo City and Msunduzi in this grant is unacceptable to theCommittee. The Committee is of the view that rather than suspension, other intergovernmental solutions could have been found due to the huge negative consequence that this decision has on the communities who were intended beneficiaries of the transport services provided through this grant allocation.
	12. The Committee welcomes the R750 million allocated in 2020/21 for the Regional Bulk Infrastructure Grant for the rehabilitation of waste treatment infrastructure in the Vaal River System. However, the Committee recommended in the 2019 Division of Revenue Amendment Bill (15-2019) that National Treasury identify all those responsible for polluting the Vaal River System and a cost sharing mechanism for the rehabilitation be established and implemented where possible.
1. **Recommendations**

The Standing Committee on Appropriations having considered the Division of Revenue Bill [B3-2020] recommends as follows:

* 1. That the Minister of Finance and the Minister of Transport provide a report on the possible impact of the R2.8 billion reductions on the Provincial Roads Maintenance Grant. Considering the poor state of the provincial road network, the Ministers must provide the Committee with alternative viable solutions on how to fund the maintenance of the provincial road network in all the provinces affected by these cuts, the poor provinces in particular.
	2. That the Minister of Finance and Minister of Basic Education and provide a report on the implications of the R1.9 billion reductions in the Education Infrastructure Grant. The Committee views this grant as critical in providing education infrastructure in particular to the previously disadvantaged communities. Each Ministry should report as follows:
1. The rationale and implications of the R1.9 billion reductions in this grant given its importance in providing education infrastructure.
2. The Minister of Basic Education should report on the implications of these budget reductions on the Education Infrastructure Grant and provide a list of the affected provinces and the list of the education infrastructure projects affected.
	1. That the Minister of Basic Education provides a comprehensive report on thepossible impact of the R123 million reduction over the MTEF on the School Infrastructure Backlogs Grant which is meant for the eradication and replacement of inappropriate schools and related school furniture.
	2. Thatthe Minister of Finance, the Minister of Transport, the Minster of Corporative Government and Traditional Affairs, and the South African Local Government Association, Msunduzi, Buffalo City, and Mbombela municipalitiesshould report on the possible financial and service delivery implications resulting from the R4.3 billion reductions in the Public Transport Network Grant over the MTEF. The afore-mentioned partiesshould report to the Committee as follows;
3. The Minister of Finance should demonstrate how, over the years, this grant has underperformed in these affected municipalities, what has been the expenditure patterns versus infrastructure investment as required by the grant framework. The Minister should also provide demonstrable evidence that National Treasury has over time assisted these affected cities without success.
4. The Minister of Transport should explain the steps that theDepartment had taken to assist these cities who are currentlysuspended from the grant. Furthermore, the Minister of Transport should provide a report on the possible implications for the suspension of these cities from the grant in light of what the Department of Transport’s public transport strategy envisages.
5. The Minister of Corporative Government and Traditional Affairs should clarify the steps that the department implemented overtime in order to fast-track the implementation of this grant and what appears to be the challenges in these cities and how COGTA was assisting these municipalities through available intergovernmental processes.
6. The South African Local Government Association clarifies its role in assisting municipalities and cities with the implementation of the Public Transport Network Grant and what has been done to address the challenges faced by these cities in spending this grant according to the grant framework. SALGA should also clarify the service delivery implications of the immediate suspension of these cities in this grant.
7. That the Mbombela, Buffalo City, and Msunduzi municipalities should appear before the Committee to explain in details the challenges faced by these cities in spending and implementing the public network grant according to the grant framework. These municipalities should provide evidence on where they have solicited assistance in form other government structures in order to spend this grant and provide these important services to the communities in these cities. The implications on service delivery and job creation in these cities should also be highlighted.

**8.** **Committee’s Recommendation on the Bill**

The Standing Committee on Appropriations having considered the ***Division of Revenue Bill*** [B3—2020] (National Assembly) referred to it and classified by the Joint Tagging Mechanism as a section 76 Bill, reports that it has agreed to the Billwithout amendments.

**9 Conclusion**

The responses by the relevant Executive Authorities, to the recommendations as set out in section 7 above must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

Report to be considered.