



FINANCE PORTFOLIO COMMITTEE

THE FINAL MANDATE ON DIVISION OF REVENUE BILL [B6-2022]

The Acting Chairperson of the Finance Portfolio Committee, Mr. W. Matsheke tabled a report on the Division of Revenue Bill [B6-2022]

1. INTRODUCTION

The Division of Revenue Bill [B6-2022] was tabled by the Minister of Finance in the National Assembly on 23 February 2022. The Bill is introduced in terms of section 76 of the Constitution of the Republic of South Africa, 1996 (“the Constitution”) and it is widely referred to as a section 76 Bill. The Bill is introduced annually to give effect to Section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1990 (“IGFRA”). The Bill provides for the equitable division of revenue anticipated to be raised nationally among the national, provincial, and local spheres of government for the 2022/23 fiscal year.

Critical to the fiscal policy is the reduction of budget deficit and stabilizing debt-to GDP ratio. Therefore, over the medium term, restoring fiscal sustainability requires continued restraint in expenditure growth and reforms to raise economic growth, by extending the special COVID-19 social relief of distress grant for 12 months until March 2023, bolstering provincial transfers for health and education, narrowing the budget deficit, to mitigate the impact of higher interest rates on debt-service costs and improving the longer-term debt outlook, and supporting economic growth through reforms. Of importance to note, the division of revenue continues to protect public spending programmes geared towards poor South Africans, contributing to growth, and creating jobs from major reductions.

Beside debt-service costs and contingency reserve, the total revenue raised and to be shared amongst the three spheres of government, amounts to R1.66 trillion in the 2022/23 FY, decreasing to R1.60 trillion in 2023/24 FY, before peaking at R1.67 trillion in the 2024/25 FY. It is worth noting that Gauteng Province receives total national transfers of R146.5 billion comprising of R120 billion in equitable share and R26.5 billion in conditional grants for the 2022/23 financial year.

2. PROCESS FOLLOWED

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

On Thursday, 28 April 2022, the Portfolio Committee received a briefing on the Bill from the NCOP permanent delegate, Hon. Dennis Ryder, supported by officials from National Treasury.

Furthermore, the Portfolio Committee received the Gauteng Executive Council's view, the socio-economic impact analysis, and the legal opinion on the Bill.

As required by the Standing Rules of the Gauteng Provincial Legislature, the Portfolio Committee invited public submission on the Bill through print. No submissions were received.

On Tuesday, 03 May 2022, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

The Portfolio Committee received minutes from the Select Committee of Appropriations on the Negotiating Mandate, on Wednesday, 04 May 2022, which confirmed that there were no amendments to the Bill and 8 provinces voted in favour of the Bill, and the Western Cape province did not vote in favour of the Bill. On Thursday, 05 May 2022, the Portfolio Committee deliberated and adopted a report on the Division of Revenue Bill and mandates the Gauteng permanent delegate to vote in favour of the Bill.

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

To provide for the equitable division of revenue raised nationally among the national, provincial, and local spheres of government for the 2022/23 financial year; the determination of each province's equitable share; allocations to provinces, local government, and municipalities from national government's equitable share; the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

The allocations to the three spheres of government for the 2022/23 fiscal year and MTEF are informed by national interest encapsulated in government priorities that benefit the nation. These priorities are outlined in the National Development Plan, which sets out the country's long-term development trajectory. Complemented by the strategic integrated projects overseen by the Presidential Infrastructure Coordinating Council and the seven priority outcomes adopted by Cabinet in 2019-2024 Medium Term Strategic Framework (MTSF).

In addition, the Division of Revenue for the 2022/23 financial year is mainly in line with the recommendations made by the Financial and Fiscal Commission ("FFC"), which is mandated by Section 220 of the Constitution to provide information to all organs of state to make informed decisions about complex fiscal matters. The FFC consults on these matters with all the three spheres of government.

b. **CONSTITUTIONAL AND STATUTORY FRAMEWORK**

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

- The equitable division of revenue raised nationally among National, Provincial, and Local spheres of government;
- The determination of each province's equitable share of the provincial share of that revenue; and

- Any other allocations to provinces, local government, or municipalities from the national government's share of that revenue, and for any conditions on which those allocations may be made.

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

The Intergovernmental Fiscal Relations Act 97 of 1997 sets out the process for the division of nationally raised revenues between the three spheres of government. It establishes the Budget Forum, in which local government issues are discussed as part of the national budget process. It also requires that a Division of Revenue Bill be tabled annually, setting out (among other things) the amounts to be transferred to each municipality.

The Bill seeks to amongst others, give effect to the provisions of Section 214 of the Constitution. These include national interest and the division of resources, provision for debt costs, national government's needs and interests, provincial and local government basic services, fiscal capacity and efficiency, developmental needs, economic disparities, obligations of terms of national legislation, predictability, and stability, and of importance, flexibility in responding to disasters. **The Portfolio Committee noted that the introduction of the bill complies with the Constitution, the Intergovernmental Fiscal Relations Act, 1997, and the Money Bills Amendment Procedure and Related Matters Act, 2009.**

3. OUTCOME OF THE NEGOTIATING PROCESS

The Committee mandated Hon. Ryder to table the negotiating in favour of the Bill, with the following recommendations:

- i. That National Treasury should ensure that within the medium-term framework that municipalities are capacitated to prudently spent monies allocated to it;
- ii. That National Treasury should speed up revising the Local Government Equitable Share formula in view of municipalities becoming financial distressed due to their shrinking tax base further exacerbated by Covid-19;
- iii. That National Treasury through the Municipal Systems Improvement Grant, should support municipalities to embrace digitization and diversify their revenue as part of building financial resilience of local government;
- iv. That National Treasury should make available guidelines for the management of funds earmarked for Presidential Youth Employment Initiatives to bolster the legislature's endeavour to conduct oversight;
- v. That National Treasury should ensure fair and equitable distribution of resources to areas impacted by disasters;
- vi. That National Treasury should develop mechanism to ensure funds earmarked for Covid-19 and disaster relief are expended for their intended purposes;

- vii. That National Treasury should ensure that all spheres of government comply with the provision of the PFMA to ensure that 8% of the value of assets is set aside for maintenance;
- viii. That National Treasury should continue striking a delicate balance in the allocation of resources in view of competing priorities;
- ix. The Portfolio Committee acknowledges the role the Vaal River system plays in the economy of Gauteng and urges National Treasury to ensure that there is value for money on funds allocated for its rehabilitation; and
- x. That National Treasury should ensure the build-up of contingency reserves to mitigate disasters the world has become susceptible to due to climate change.

4. OPINION OF THE PROVINCIAL EXECUTIVE COUNCIL ON THE BILL

The Portfolio Committee noted that the Provincial Executive Council supports the 2022 Division of Revenue Bill.

a. SOCIO-ECONOMIC IMPACT

Notwithstanding the challenges brought about by the Covid-19 pandemic, there are some green shoots emerging that signal the economic recovery such as higher than anticipated revenue, positive economic growth outlook and improved consumer purchasing power. The Comprehensive Agricultural Support Programme Grant which aims to support newly established and emerging farmers, particularly subsistence, smallholder and previously disadvantaged farmers would go a long way in ensuring that there is a food security and skilling emerging farmers. The grant funds a range of projects, including providing training, developing agro-processing infrastructure, and directly supporting targeted farmers. Higher than anticipated revenue collection. The effects of urbanisation hit Gauteng Province negatively given the lower average per capita on both the equitable share and conditional grants. To offset this, more emphasis should be given on enhancing rural economy, which would have positive economic returns to their regional gross domestic product. A key weakness in economic performance has been persistently high joblessness, which lies at the root of poverty and exacerbates inequality. An amount of R18.4 billion is allocated in 2022/23 and 2023/24 to support youth employment and the creation of short-term jobs under the presidential employment initiative. Furthermore, the Bill indicated that Government allocates an average of 59.4 per cent of consolidated spending to the social wage over the medium term, to address poverty and unemployment and to support the economic recovery. The special COVID-19 social relief of distress grant is extended for 12 months, with additional funding for health, education, and the presidential employment initiative.

b Social implications

It was reported that the 2022 Budget extends government's support to poor and vulnerable South Africans, while staying on course to restore the health of the public finances. Allocations for Covid-19 response through vaccination has reduced the risk of the pandemic on South African economy and provided a much-needed relief on health sector.

c. FINANCIAL IMPLICATIONS OF THE BILL

All budgets are about arriving at a delicate balance, that is, weighing present and future needs, evaluating competing needs encapsulated in the national development plans and managing revenue and expenditure to enhance service delivery. The South African government is not immune to these budgetary challenges. In drafting the budget, the National Treasury had to take into consideration the raging COVID-19 pandemic, which has led to the severe contraction in the global economy. It is further cognizant of the weak economy, massive unemployment, ailing state-owned companies, the ever-yawning budget deficit, and the ever-increasing public debt.

To mitigate this delicate situation, the 2022 budget proposes a three-pronged approach premised on ameliorating spending pressures, inclusive of additional allocations to address spending pressures, including extending the special COVID-19 social relief of distress grant for 12 months until March 2023, bolstering provincial transfers for health and education. Setting aside a portion of the revenue windfall to narrow the budget deficit, to mitigate the impact of higher interest rates on debt-service costs and improve the longer-term debt outlook. Finally, to support economic growth through reforms including the infrastructure-build programme financed through innovative funding mechanisms and supported by improved technical capabilities.

Owing to the improved tax revenue estimates experienced in 2021/22 FY, and projected increases in tax revenue over the 2022 MTEF period, government proposes a slight increase in non-interest spending compared with the 2021 budget projections. As a result, the total main budget non-interest expenditure is projected to increase by R282.3 billion over the 2022 MTEF period as follows: R110.6 billion in the 2022/23 FY, R84.6 billion in 2023/24 FY and R87.1 billion in 2024/25FY.

Following to the 2021 Medium Term Budget Policy Statement (MTBPS), further changes were made to the fiscal framework. The provincial equitable share has been increased by R53 billion over the medium term. Direct conditional grants to provinces have been increased by R5.4 billion. The local government direct transfers increase to R30.7 billion, comprising R28.9 billion from the local government equitable share and R1.8 billion in increases to direct conditional grants. **The Portfolio Committee the increase in local government equitable share municipalities, as that will mitigate against financial distress, however, cautions municipalities to use the scarce financial resources prudently.** In addition, several provincial and local government infrastructure grants that are likely to go unspent based on historical spending trends are being reprioritised to other priorities.

The reprioritisation of government spending aims to redirect public resources to spending areas that promote the attainment of government policy priorities, while remaining within the expenditure envelope. Priorities that are funded through reprioritisations over the 2022 MTEF period in the division of revenue encompass addressing shortfalls in funding for appointing medical interns in the health sector. These reprioritisations complement baselines that provide R2.04 trillion to provinces and R481.3 billion to local government in transfers over the 2022 MTEF period. These transfers fund core policy priorities, including basic education, health, social development, roads, housing, and municipal services.

Excluding the debt-service costs and the contingency reserves, the total revenue raised and to be allocated between the three spheres of government, amounts to R1.66 trillion in the 2022/23 FY, decreasing to R1.60 trillion in the 2023/24 FY and climaxing to R1.67 trillion in the 2024/25 FY. Of

these amounts 49.7 % of nationally raised funds are allocated to national government, 41.2% to provinces and 9.1% to local government. **Of importance, the Portfolio Committee noted that these allocations take into consideration government’s spending priorities, economic and fiscal policy considerations, revenue issues, debt and financing considerations and expenditure plans.**

The national share of revenue declines at an annual average rate of 1% transfers to provinces increases and an annual average rate of 1.4%, while transfers to local government grow at an average annual average rate of 7.9%, due to higher than inflation growth in the equitable share. Although the revenue base is concentrated in urban areas, rural areas receive more per capita allocations through the division of revenue. This is evident in that transfers per household to most rural municipalities are more than twice as large as those to metropolitan municipalities. Furthermore, more rural municipalities receive higher allocation per capita than urban provinces. **The Portfolio Committee commends government for providing social safety nets for the poor and encourages redistributive ethos of the division of revenue to continue unabated. However, the Portfolio Committee noted with concern that due to Covid-19 pandemic, municipalities expected a substantial decline in revenue collection in the 2020/21 FY.**

CHANGES TO PROVINCIAL ALLOCATIONS

Table 1: Total Transfers to provinces, 2022/23

R million	Equitable Share	Conditional Grants	Total Transfers
Eastern Cape	72 231	13 850	86 081
Free State	31 107	8 737	39 845
Gauteng	120 042	26 503	146 545
Kwa-Zulu Natal	114 509	25 041	139 551
Limpopo	64 056	10 741	74 796
Mpumalanga	45 962	9 060	55 022
Northern Cape	14 942	4 795	19 737
North West	39 540	8 568	48 108
Western Cape	58 367	14 016	72 383
Unallocated	-	471	471
Total	560 757	121 782	682 539

Source: National Treasury

Table 1 above is a graphical representation of total transfers to provinces for the 2022/23 financial year. Gauteng Province receives R120 billion from the equitable share allocation and R26.5 billion for conditional grants in 2021/22 financial year which amounts to R146.5 billion. **The Portfolio Committee noted that provincial equitable share grows at an average annual growth rate of 1 per cent, whilst conditional grants at 3.3 per cent.** The average annual growth of provincial equitable share amounts to 2% excluding additions effected in the 2020/21 FY. The rationale for the slow growth in provincial equitable share is partly ascribed to fiscal consolidation measures introduced in the previous MTEF periods.

5. FINAL POSITION ADOPTED BY COMMITTEE

After due consideration, the Finance Portfolio Committee in accordance with Rule 163 read with Rule 164, adopted the report in support of the Division of Revenue Bill [B6-2022] Section 76, as referred and recommends its adoption by the House.