**Report of the Select Committee on Appropriations on the Expenditure and Performance of the Early Childhood Development Grant as at the end of the Fourth Quarter of the 2021/22 Financial Year; Dated 12 October 2022**

1. **Background**

Section 4(a), (d) and (e) of the Money Bills and Related Matters Act No. 09 of 2009 (as amended in 2018), mandates the Committee to consider and report on spending issues; reports on statements of actual expenditure published by the National Treasury; and any other related matter set out in the Act. These provisions, read together with section 32 of the Public Finance Management Act No. 01 of 1999 (as amended), and section 16 of the Division of Revenue Act No. 05 of 2022, provide the framework for the legislative sector to play an oversight role over the Executive.

Against this background, the Committee undertook to assess the implementation, performance and expenditure of the Early Childhood Development (ECD) Grant as at the end of the fourth quarter of the 2021/22 financial year. The purpose of the ECD Grant is to increase the number of poor children accessing subsidised ECD Grant services through centre and non-centre based programmes; to support early childhood development providers delivering an ECD programme to meet basic health and safety requirements for registration; and to pilot the construction of new low-cost ECD centres.

**2. Terms of reference**

The Committee resolved to conduct a hearing on the expenditure and service delivery performance of this Grant on 07 September 2022. Since the period under review was the last for the Grant to be managed by the Department of Social Development, before it was transferred to the Department of Basic Education with effect from 1 April 2022, the Committee invited the Department of Social Development to report on the financial and non-financial performance as at the end of the fourth quarter of the 2021/22 financial year. In addition, National Treasury was invited to provide a consolidated report on this Grant covering the period under review.

**3. Grant outputs**

The Grant has two components with detailed outputs, conditions and responsibilities for each, specified in separate frameworks. The two Grant components are -

* Infrastructure: Number of ECD centres assessed for infrastructure support and health and safety standards; number of ECD centres whose registration status improved as a result of the infrastructure component within 24 months of receiving the Grant; and number of low-cost ECD centres constructed; and
* Subsidy: Number of eligible children subsidised, as agreed in the service level agreements; number of children attending ECD services in fully registered centres; number of children attending ECD services in conditionally registered centres; number of children subsidised in fully registered centres; number of children subsidised in conditionally registered centres; number of days subsidised for centre-based programmes; number of children benefiting in registered non-centre based ECD programmes; number of children benefiting from the top-up grant; and number of ECD practitioners and other staff employed in the registered ECD centres benefiting from the conditional Grant.
1. **National Treasury**

National Treasury submitted that, in the 2021/22 financial year, the Grant had been allocated R1 billion plus a stimulus package allocation of R178 million and a sum of R385.6 million approved roll-over funds. This resulted in a total budget of R1.6 billion. Of this amount, provinces had spent R1.18 billion and failed to spend R416 million. Of the unspent amount, R201 million had been approved as roll-over funds. The rest of the money, R214.6 million, had been surrendered back to the National Revenue Fund. The Eastern Cape had surrendered R36.3 million; the Free State R15.5 million; Gauteng R40.9 million; KwaZulu-Natal R43.4 million; Limpopo R5.7 million; Mpumalanga R3.1 million; the Northern Cape R14.1 million; and the North West R55.2 million.

Table 1 below provides a breakdown of the total allocation per province.

Table 1: ECD Grant allocation in the 2021/22 Financial Year.

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| --- | --- | --- | --- | --- |
| **Provinces** | **2021/22 FY Budget** **R’000** | **2021/22 ECD Stimulus Funds****R’000** | **Roll-over funds****R’000** | **Total Budget per Province****R’000** |
| Eastern Cape | 157 970 | 26 611 | 60 270 | 244 851 |
| Free State | 63 533 | 10 702 | 37 336 | 111 571 |
| Gauteng | 152 107 | 25 623 | 77 763 | 255 493 |
| KwaZulu-Natal | 227 031 | 38 245 | 85 185 | 350 461 |
| Limpopo | 143 443 | 24 164 | 46 589 | 214 196 |
| Mpumalanga | 96 251 | 16 214 | 38 196 | 150 661 |
| Northern Cape | 25 302 | 4 262 | 9 519 | 39 083 |
| North West | 88 751 | 14 951 | 28 795 | 132 497 |
| Western Cape | 102 273 | 17 228 | 2 005 | 121 506 |
| **Total** | **1 056 661** | **178 000** | **385 658** | **1 620 319** |

In terms of non-financial performance, National Treasury reported that the ECD Grant had performed fairly well. However, the following challenges had been experienced:

* Verification of beneficiaries for the Presidential Employment initiative had not been completed. Many had not been finalised because of outstanding information not being provided by the end of the financial year.
* With regard to maintenance there had been delays in the procurement process; slow delivery by implementing agents and municipal delays in securing land for construction of new centres.
* Late submission of claims by non-profit organisations (NPOs) had caused a delay in transfers.

**5. Department of Social Development**

The Department of Social Development (DSD) reported that the key conditions of the Grant were centred around providing subsidy through assisting registered ECD centres not fully funded from the provincial equitable share; fully and conditionally registered centres that were not funded; and registered non-centre based ECD programmes that were not funded. The subsidy targeted qualifying children from birth to five years or until they start Grade R. The DSD added that the subsidy was paid at a rate of R17 per child for a maximum period of 264 days. The value of the subsidy for non-centres based programmes was R6 per child for the number of sessions conducted.

The DSD submitted that partial care facilities offering ECD programmes, that were unregistered or registered conditionally, would be eligible for the maintenance component of the Grant. Moreover, minor building and maintenance improvements aimed at ensuring ECD centres complied with health and safety norms and standards, as identified by the DSD, were also funded. Provinces were required to conduct assessments of conditionally registered centres and cost them in order to qualify for maintenance funding from the Grant in the 2022/23 financial year. Lastly, all maintenance projects must be recorded on the National Treasury’s Infrastructure Reporting Model (IRM).

The DSD reported that ECD service providers that were fully or conditionally registered with their provincial social development departments to provide ECD services, as well as unregistered ECD services that provided learning, were eligible to benefit from the ECD stimulus relief fund. This included ECD centres as well as non-centre-based services, like play grounds; toy libraries; child minders; and mobile ECD services. The DSD further clarified that an ECD service did not have to be registered as an NPO to receive this benefit; and that organisations that run, manage or oversee multiple centres and/or non-centre based ECD services, may apply for more than one programme and more than one type of programme. If an organisation did not directly employ the staff in the centre or non-centre based ECD service, but provided an oversight and support role, a written and signed agreement, governing the relationship with that programme and setting out respective roles and responsibilities, must have been in place prior to 1 March 2020.

**5.1 Performance on infrastructure component**

The DSD reported that, in 2021/22, 195 ECD centres had benefited from the Grant, against a target of 273. Limpopo and the Western Cape had achieved 50; Free State 27; Mpumalanga 25; KwaZulu-Natal 14; Gauteng 12; the Eastern Cape eight; and the Northern Cape and North West four each.

The reasons for under-expenditure on this component were reportedly the following:

* Eastern Cape: A low-cost ECD centre could not be constructed, as the earmarked land belonged to the traditional authority and had to be transferred to the NPO. The issue had been resolved later in the 2021/22 financial year and the DBE, who had taken over the responsibility to proceed with construction, planned to complete it within the 2022/23 financial year.
* Free State: Following a delay in the appointment of an implementing agent (IA), there had been challenges between the Department of Social Development and the Department of Public Works and Infrastructure. As a result, the Province did not acquire the Permission to Occupy from the Municipality for the identified site. The DBE, who would continue and implement the project in-house, was busy with the Bill of Quantities and outstanding engineering drawings as well as with other projects that had not been implemented in the 2021/22 financial year.
* Gauteng: Some of the targeted ECD centres had closed down and it had been too late to replace them. To date, there had been no work done, as the replacement list had not been received yet.
* KwaZulu-Natal: There had been challenges with the IA relating to delays in procurement of service providers. The project manager had left and appointing a replacement had resulted in further delays. The expenditure recorded was 100 percent, as funds had been transferred to the IA to enable it to procure materials and pay contractors, as agreed during the first quarter. All backlog projects would be implemented by the DBE.
* Limpopo: Construction of a low-cost ECD centre was still underway and the contractor not yet paid. The IA, the Department of Public Works and Infrastructure, had only appointed the service provider in February 2022; and the project was 60 percent completed at the time of reporting.
* Mpumalanga: The low-cost ECD and other centres had not been completed and the Province had made sectional payments to contractors. The IA, the Department of Public Works and Infrastructure, had only appointed contractors in February 2022. Projects were now at 99 percent completion, but contractors had not yet been paid because of the transfer of the funds to the DBE.
* Northern Cape: The procurement process had taken long to complete; as suitable contractors could initially not be found. By the time the Province had found contractors (upon the third attempt), the Supply Chain Management had already issued an instruction that projects be stopped by the first week of February 2022, due to the transfer of the function to the DBE. Those projects, together with the current financial year projects, were still on hold at the time of reporting.
* North West: The procurement process had been delayed, as the received quotations had exceeded the available budget. By the time the Province had received more quotations after a second briefing, it had already been too late to appoint service providers/contractors. The backlog would be dealt with by the DBE during the 2022/23 financial year.
* Western Cape: The Province had not been able to disburse all funds before the end of the financial year, but had processed all payments by the time of reporting.

The DSD reported that certain initiatives had been put in place to assist provinces to mitigate the above reasons for under-performance. Capacity-building interventions included provision to employ qualified built environment technical staff; developing guidelines for provinces to implement infrastructure delivery; and involving other ECD partners to provide advisory services. In addition, a procurement strategy had been developed to address procurement challenges and improve the way provinces appointed contractors to manage projects; uniform low-cost ECD centre designs had been developed; and quarterly site visits and meetings to monitor project implementation and expenditure had been held.

**5.2 Performance on subsidy component**

The DSD reported that, against a target of 72 388, only 62 907 children had benefited from the subsidy component of the Grant for the required 264 days in 2021/22. The reasons for the under-performance on this component was reportedly the late signing of service level agreements (SLAs), which affected quarterly payments, especially in the North West; and non-compliance by non-profit organisations (NPOs) with regard to submission of reports and compliance documents. The DSD indicated that it had supported provinces through different structures that had been developed, including quarterly conditional grant and coordinators meetings; while senior management structures had been used as consultation platforms and for elevation of challenges and decision making. In addition, the Project Manager had engaged with struggling provinces individually to ensure better understanding of the frame working and reporting.

**5.3 Performance on Stimulus Package**

The DSD reported that the Presidential Employment Stimulus fund of R474.3 million had been made available to the employees of ECD services in the 2020/21 financial year and the project administered by the DSD until 31 March 2022. The Department further reported that it had received applications for a total of 113 620 staff members, of which 109 801 practitioners were found to be eligible for the Grant; however, were yet to be verified for payment. Of the eligible staff, 58 590 had been paid by 31 March 2022, with payment to 48 105 still outstanding.

**5.4 Support to provinces**

With regard to the support it had provided to provinces, the DSD reported the following:

* NPOs had been contracted through a partnership with the DG Murray Trust to assist ECD organisations to complete the applications.
* Capacity building and information sessions had been held with provinces on the implementation and processes for the stimulus package by the DSD and partners, such as the Nelson Mandela Foundation.
* Different structures had been established with all provinces as a platform to support provinces and meetings were held weekly.
* Provinces had been assisted and supported during the establishment of help desks at provincial and district levels to enable ECDs to obtain assistance.
* SMS’s had been sent to advise ECDs on their applications and any outstanding information.
* Reporting and monitoring tools had been developed to promote standardisation across the provinces.

With regard to the next steps with the stimulus package, the DSD reported that National Treasury had already made recommendations to provincial treasuries on roll-over funds. Once allocation letters were issued, it would assist the DBE in the processing of the payment to eligible ECD practitioners through application and payment verification; ECD site verification; and ECD guidelines set by the social development sector. Payments to all eligible ECD practitioners would reportedly be finalised by 31 March 2023 by DBE.

**5.5 Migration of function to Department of Basic Education**

The DSD reported that a Cabinet memorandum on the shift of the ECD function from the DSD to the DBE had served in Cabinet in March 2022; and on 1 April 2022, the Minister of Social Development had officially handed over the function to the Minister of Basic Education. This meant that the management and implementation of the Grant was now the responsibility of the DBE and also marked a partnership between the DBE and other government departments, NGOs, civil society partners and other entities to ensure that all children, including those with disabilities, were provided with access to quality ECD services.

1. **Findings and observations**
	1. The Committee welcomed the main objectives of the Grant, namely to increase the number of poor children accessing subsidised ECD services through centre and non-centre based programmes; to support ECD service providers to meet basic health and safety requirements for registration; and to pilot the construction of new low-cost ECD centres.
	2. The Committee noted that the Grant had been allocated R1 billion plus a stimulus package allocation of R178 million and a sum of R385.6 million approved roll-over funds for the 2021/22 financial year, totalling R1.6 billion. Of the total amount, provinces had only spent R1.18 billion, under-spending by R416 million. The Committee was concerned over the service delivery impact of the total amount of R214.6 million being returned to the National Revenue Fund (NRF) by the following provinces: Eastern Cape, R36.3 million; the Free State, R15.5 million; Gauteng, R40.9 million; KwaZulu-Natal, R43.4 million; Limpopo, R5.7 million; Mpumalanga, R3.1 million; the Northern Cape, R14.1 million; and the North West, R55.2 million.
	3. The Committee welcomed the development of a procurement strategy to address some of the procurement challenges and to improve the way provinces appointed contractors to manage projects; the development of uniform low-cost ECD centre designs; and the quarterly site visits to monitor project implementation and expenditure.
	4. The Committee welcomed the fact that the non-centre based allocations of the subsidy component were earmarked for the neediest children in deep rural and disadvantaged areas, where there was no basic infrastructure, and who only received some early learning stimulation a few times a week.
	5. The Committee noted that, while the official hand-over from the Department of Social Development (DSD) to the Department of Basic Education (DBE) had taken place on 1 April 2022, the migration process had actually started more than two years previously and may only conclude over the following two years; and that the DSD was still working closely with the DBE to ensure a smooth handover and minimal disruption to services.
	6. The Committee remained concerned over the reported under-expenditure in various provinces, which could be attributed to delays in procurement processes negatively affecting the construction of low-cost ECD projects in the Eastern Cape, Free State, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape and North West. The Committee noted with concern that these procurement delays were a common problem across provinces, with negative consequences for poor and needy children.
	7. The Committee noted that, according to the DSD’s audits, there were more unregistered ECD centres than registered ones in the country, primarily in disadvantaged communities, and that the DSD was continually working with these centres to capacitate them. The Committee welcomed the fact that, in order to assist some of these unregistered centres, the DSD had developed a pre-registration support package to enable them to receive the subsidy.
	8. The Committee welcomed the strict guidelines and mitigation strategy put in place by the DSD for all provinces to ensure that monies were paid to the correct people and in line with the Grant framework, the Public Finance Management Act and Treasury Regulations; and that there had been no audit findings since the inception of the stimulus package.
2. **Recommendations**
	1. The Committee believes that intensifying investment of resources at the early stages of education is crucial for the country. Therefore, it urges the Department of Basic Education (DBE) to continue efforts to increase the number of poor children accessing subsidised ECD services through centre and non-centre based programmes. The DBE should fast-track the verification of beneficiaries and urgently address the issue of outstanding information.
	2. The Department of Basic Education and provinces such as the Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape and North West should fast-track the implementation of all remedial actions outlined to the Committee, including addressing delays in the procurement processes; late signing of service level agreements (SLAs) and late payment of implementing agencies; to improve the Grant expenditure and performance. The Committee is of the view that the persistent under-expenditure and returning of funds back to the National Revenue Fund, due to failure to spend according to projections, is unacceptable and continues to undermine the collective efforts to intensify investment of resources in the early stages of education.
	3. The Committee urges both the Department of Basic Education (DBE) and the Department of Social Development (DSD) to continue working together to ensure the smooth transition of the ECD Programme from the DSD to the DBE. The Committee further recommends that, before the handover process is finalised, the DSD should compile a detailed and thorough report to further assist the DBE to address some of the pertinent challenges, including around infrastructure delivery and contract management.
	4. The Committee urges the Department of Basic Education to continue the implementation of strict measures and mitigation systems, put in place by the Department of Social Development for all provinces, to ensure that monies are consistently paid to the correct beneficiaries in line with the Grant framework, the Public Finance Management Act and Treasury Regulations; and to ensure that appropriate consequence management is implemented for provinces failing to spend according to the projected budgets without valid reasons.
	5. The Committee urges the Department of Basic Education to further collaborate and coordinate the policy development processes with other government departments where necessary, especially those that form part of the value chain in the ECD Programme. The Committee believes that there is a need for a government- and society wide effort to ensure that this matter receives the necessary support from all stakeholders.
	6. Whilst the Committee urges National Treasury to ensure that roll-over requests are always considered according to the conditions set out in section 6.4 of the Treasury Regulations and section 30 and 31 of the Public Finance Management Act, the Committee believes that the alignment of plans with approved budgets and monitoring and evaluation systems need to be improved in all three spheres of government. Both Parliament and provincial legislatures, through sector committees, should continue to intensify efforts to scrutinise departmental plans during budget vote processes, to ensure that alignment of plans and better service delivery are achieved at all levels of government.

Report to be considered.