

Report of the Portfolio Committee on Finance and Provincial Expenditure dated 24 November 2023 as follows:

1. ***Terms of reference***

The terms of reference of the Committee were to consider the **Division of Revenue Amendment Bill [B 33—2023]**, which was referred by the National Council of Provinces to the Eastern Cape Provincial Legislature, and solicit public inputs on the Bill and consolidate the Province's Negotiating Mandate and report to the House.

2. ***Method of Work***

The Committee conducted two (2) public hearings in two (2) District Municipalities on 22 November 2023. The Committee initially conducted one (1) meeting on 16 November 2023 at the Legislature Chamber and postponed the Public Hearings to two (2) District Municipalities, Joe Gqabi and Chris Hani.

The Committee's decision to postpone the public hearings was informed by the poor attendance by the stakeholders.

3. ***Public Consultation and Education***

The Committee invited stakeholders to participate in the public hearing and to make written submissions. The stakeholders include local and district municipalities, Provincial Treasury, Office of the Premier and all Provincial Departments.

The Committee conducted desktop notification of stakeholders in all districts municipalities. The Committee's publicity on the Bill were also done using radio and social media.

Twitter and Facebook:

- Public notice and a call for written submissions on the Bill were made using Twitter and Facebook.

Radio

- The Committee Chairperson was scheduled to present the Bill on Tru FM and other community radio stations.

4. ***Public Hearings***

4.1 Joe Gqabi District Municipality and Chris Hani District Municipality

- (1) Walter Sisulu Local Municipality Chambers (Aliwal North) and Chris Hani District Municipality Chambers (Queenstown)

COMMENTS ON THE DIVISION OF REVENUE AMENDMENT BILL BY PROVINCIAL TREASURY

- The Bill was supported but the following concerns were raised:-
 - With regard to sections 18 and 19 which refers to the stopping and reallocation of funds, the shifting of conditional grants needs to be reconsidered to make sure that the funding is not taken from provinces without the conditional grants funding having addressed the purpose it was allocated for in the particular year.
 - When funds are re-allocated away from provinces it will deprive the province in speedily addressing service delivery issues such as the emergencies in cases of the disaster grant. The funds that are underspent on conditional grants should be rescheduled to the following year to allow for the projects to be completed especially these projects that are committed for completion by departments. It is unclear that the funds are utilised by other provinces that receive the unspent conditional grant funds given the late transfer of funds which is late in the financial year.
 - Similarly, for public transportation, the conditional grant funding has favoured the metropolitan councils, for example the Bus Rapid Transit System (BRT). National Treasury should review the grant funding model and consider local municipalities as there is increasing demand of public transport in these municipalities.
 - Regarding unspent conditional grants at local government level and in particular, the Municipal Infrastructure Grant (MIG), it is recommended that the funds should be transferred or redirected within the district (for local municipalities) whereby the current expenditure is in line with projections or planned service delivery.
 - It should be noted that with regard to sport funding allocation, sport fields are being built using MIG funding and therefore the MIG is not only used for the infrastructure maintenance at municipalities. This is particularly evident at the Department of Sport, Recreation, Arts and Culture (DSRAC) that has the responsibility for sport function in the province and the department is requested to respond on the state of sport fields, however the budget for the construction of sport fields is the responsibility of municipalities.
 - The MIG funding covers the municipal infrastructure and should not be re-allocated away from municipalities without the consultation with the province for functions that the province also has a responsibility. Municipalities and DSRAC therefore need to have a closer working relationship to ensure that sport function is delivered according to the functions of municipalities and DSRAC.
 - With regard to Chapter 3, Part 1 – Conditional grants, the province maintains that consideration is given for converting the Compensation of Employees (CoE) of traditional leaders for sector to be funded through a conditional grant with specific conditions set for process to be followed when Traditional Leaders are recognized.

- This change to deal with the salaries of traditional leaders will reduce the burden from provinces in terms of the equitable share allocation and clarify the process even more in terms of the powers on the recognition. The current process is performed through Presidency at a national level and the Office of the Premier at a provincial level and this leaves a gap in terms of confirming budget availability to the department.
- This process as it stands does not take into consideration the funding provided in line with annual determination that is made by the Presidency on salary adjustments. There should also be a conditional grant focusing on Traditional Leadership Institutions Infrastructure and have it incorporated in the Municipal Infrastructure Grant (MIG) or provincial allocations.

COMMENTS FROM LOCAL GOVERNMENT

Changes to Municipal Disaster and Recovery Framework

- The framework of the municipal disaster recovery grant is amended to ring-fence the additional funds for the repair and reconstruction of municipal infrastructure damaged by the floods that occurred between February and March 2023.
 - The province welcomes the ringfenced portion of the grant towards repairs and reconstruction.
 - Secondly, the province welcomes additional funding of R658 million towards this grant in the Province.

Correction of an error in indirect allocations of the regional bulk infrastructure grant

- An amount of R20 million for the Kirkwood Water project that was erroneously allocated to Dr Beyers Naude Local Municipality is corrected to an allocation to Sundays River Valley Local Municipality.
 - The correction is noted by the Province.
 - With regard to EPWP, it is noted a total reduction in this grant from R98 million to R94 million (R3 427 million reduction) and would like to raise the issue of unemployment rate which is high in the province because the grant was alleviating the situation.
 - Reduction of **Municipal Infrastructure Grant (MIG) – direct grant** by R244 million affecting all municipalities in the province except metros. Though we understand the Fiscal consolidation being the main reason, it should be noted that Eastern Cape is one of the poorest provinces and requires funding to address service delivery.

- The province has further experienced reduction of R23 million of **Integrated National Electrification Programme (Municipal) - direct Grant**.
- Additional R39 million of **Regional Bulk Infrastructure Grant (direct grant)** has been reduced affecting Chris Hani District Municipality and OR Tambo District Municipality.
- An amount of R40 million reduced across several municipalities on **Water Services Infrastructure Grant – direct grant** in the province.
- Nelson Mandela Bay & Buffalo City Metro Municipalities Grants, **Informal Settlements Upgrading Partnership Grant, Urban Settlement Development Grant, Public Transport Network Grant** and **Programme and Project Preparation Support** Grants were reduced by R22 million, R42 million, R150 and R26 million respectively.

In-direct grants

- The Province has also been affected negatively (reduction) on Schedule 6B on **Integrated National Electrification, Regional Bulk Infrastructure Grant** R73 million and R55 million respectively and **Water Services Infrastructure Grant** additional R37 million.

WRITTEN SUBMISSION

The Portfolio Committee received no written submissions.

Signed by:



HON. N NDABENI (MPL)
CHAIRPERSON OF PORTFOLIO COMMITTEE
ON FINANCE AND PROVINCIAL EXPENDITURE

24 November 2023

DATE