**4. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE AMENDMENT BILL [B9 – 2020], DATED 21 JULY 2020**

The Select Committee on Appropriations having considered the *Division of Revenue Amendment Bill* [B9-2020](National Assembly – section 76), reports as follows**:**

**1. Introduction**

The Minister of Finance tabled the Division of Revenue Amendment Bill (henceforth referred to as the Bill) in Parliament on 24 June 2020 during the presentation of the 2020 Supplementary Budget. The Bill was tabled in Parliament in terms of section 12(4) of the Money Bills and Related Matters Act No. 9 of 2009 (as amended by the Money Bills Amendments Procedure and Related Matters Act, No 13 of 2018). The Act requires the Minister of Finance to table a Division of Revenue Amendment Bill with a revised fiscal framework if the adjustments budget effects changes to the Division of Revenue Act for the relevant year.

The Bill and its annexures address the following matters:

• Changes in the equitable division of nationally raised revenue among the spheres of government;

• Changes to provincial grant allocations; and

• Changes to local government grant allocations.

**2. Legislative framework, stakeholder consultation and public participation process**

The Bill was referred to the National Council of Provinces and to the Committee on 15 July 2020 after the National Assembly passed it without amendments. Prior to that, the Committee undertook a joint process with the Standing Committee on Appropriations. On 08 July 2020, the Committees were briefed on the Bill by the National Treasury; and in compliance with section 214(2) of the Constitution of the Republic of South Africa, the Committees consulted the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga) on the Bill during a meeting 09 July 2020. In order to facilitate public participation, in line with section 72 of the Constitution of the Republic of South Africa, the Committees published adverts in print media in all 11 official languages from 26 June to 2 July 2020. In response to these, the Committees received written submissions on the Bill from the Congress of South African Trade Unions (COSATU); the C19 People’s Coalition, and Mr MG Buthelezi. COSATU also made an oral presentation during a public hearing on 10 July 2020. Lastly, the Committee also consulted the Parliamentary Budget Office (PBO) during the same meeting.

**3. Overall Division of Revenue Amendment Bill response to COVID-19 pandemic**

National Treasury reported that the Bill had been introduced to fund a response to the COVID-19 pandemic and its negative impact on public finances across government. The increased government spending was funded in part by increasing the budget deficit and in part by reprioritising resources. The President announced that R130 billion would be reprioritised from which R30 billion would come from provinces (excluding conditional grants). An amount of R100.9 billion is reprioritised in the adjustments budget, including through the following:

* Savings on activities that are not possible due to COVID-19, such as travel, venue hire, and catering.
* Unspent funds due to lockdown regulations, such as infrastructure grants that could not be spent under Level 4 and 5.
* Identifying possible under-spending for reallocation (in 2019/20 at least R3.4 billion of grant funding at provincial level and R5 billion in local government was unspent).
* Delays in the implementation of some projects.

National Treasury further reported that provincial governments, who were responsible for the key services at the frontline of the fight against the pandemic, including health, education and social welfare services; have committed to reprioritise at least R20 billion to fund their COVID-19 responses.

With respect to local government, National Treasury reported that, whilst the full impact of COVID-19 on revenue collection was still uncertain, some municipalities had reported declines in revenue of between 40 and 60 percent in April 2020. To this end, proposed additions to the local government equitable share (LGES) should provide some relief for municipalities. National Treasury further reported that more funding could be freed up within municipal budgets if Salga could be exempted from implementing the 2020/21 cost of living adjustment of 6.25 percent and that a communication had been sent to the South African Local Government Association (Salga) to formally propose this.

The reported local government spending pressures as a result of the pandemic include the following:

* Impact of increased indigence due to the economic downturn.
* Provision of sanitisation of public transport facilities and vehicles in order to allow the economy to reopen.
* Provision of water, sanitation and waste services at higher frequency in informal settlements and poorly serviced rural communities in order to enable stay-at-home policies to be implemented.
* Provision for temporary shelter for the homeless.

**4. Equitable division of revenue raised nationally among the three spheres**

Table 1 below outlines the equitable division of revenue raised nationally among the three spheres of government. The net effect of the 2020 adjustments is an increase of R43.2 billion in the 2020/21 budget allocation, taking it from R1.765 trillion to R 1.809 trillion. The adjustment allocation is attributed largely to government’s financial response to the COVID-19 pandemic. The R43.2 billion additional allocation consists of an R11 billion addition to the LGES and R32.2 billion additions to national government. The provincial equitable share (PES) allocation of R538.5 billion remains unchanged.

|  |  |  |  |
| --- | --- | --- | --- |
| **Spheres of Government** | **Column A** | | |
| **2020/21 Main Allocation** | **Adjustment** | **2020/21 Adjusted Allocation** |
| **R’000** | **R’000** | **R’000** |
| **National1,2** | 1 151 839 556 | 32 180 670 | 1 185 020 226 |
| **Provincial** | 538 471 528 | - | 538 471 528 |
| **Local** | 74 683 326 | 11 000 000 | 85 683 326 |
| **Total** | **1 765 994 410** | **43 180 670** | **1 809 175 080** |

*1. 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 allocations*

*2. The direct charges for the provincial equitable share are netted out*

**5. Provincial equitable share allocations**

Table 2 below outlines the PES allocations over the medium term expenditure framework (MTEF) period.

|  |  |  |  |
| --- | --- | --- | --- |
| **Province** | **Column A** | **Column B** | |
| **2020/21** | **Forward Estimates** | |
| **2021/22** | **2022/23** |
| **Eastern Cape** | 71 415 216 | 75 305 964 | 78 841 455 |
| **Free State** | 39 017 344 | 31 897 379 | 33 656 505 |
| **Gauteng** | 112 117 907 | 121 121 075 | 129 907 803 |
| **KwaZulu-Natal** | 111 441 977 | 117 754 878 | 123 544 256 |
| **Limpopo** | 62 328 931 | 66 255 935 | 69 935 348 |
| **Mpumalanga** | 44 104 988 | 46 996 147 | 49 723 869 |
| **Northern Cape** | 14 289 669 | 15 207 395 | 16 068 179 |
| **North West** | 37 547 835 | 40 174 440 | 42 682 098 |
| **Western Cape** | 55 207 631 | 59 276 313 | 63 194 019 |
| **Total** | **538 471 528** | **573 989 526** | **607 553 532** |

**6. Changes to provincial conditional grant allocations**

The provincial conditional grant allocations are adjusted downward by a total of R7.2 billion, which is largely made up of funds that could not be spent due to the COVID-19 lockdown. Other downwards adjustments are due to programmes being delayed or scaled down in order to accommodate the COVID-19 response.

**6.1. Agriculture, Land Reform and Rural Development conditional grants**

A total of reduction of R438 million, as follows:

**Comprehensive Agricultural Support Programme Grant:** A total of R317 million

reduction in the infrastructure component of the grant.

**Ilima/Letsema Project Grant:** A total of R121 million reduction in the direct component of the grant, that supports subsistence farmers and food security.

**6.2. Basic Education conditional grants**

A total reduction of R2.3 billion in direct transfers and a net addition of R540 million to indirect transfers, as follows:

**Education Infrastructure Grant:** A reduction of R2.2 billion in the direct component of the grant. Provinces will delay new infrastructure projects to accommodate the reductions.

**HIV and AIDS (Life Skills Education) Grant:** A total of R60 million reduction in the direct component of the grant and consequently, training sessions planned for over 20 000 educators will be cancelled.

**Maths, Science and Technology Grant:** A total of R68 million reduction in the direct component of the grant and teacher training planned for 2020 will be scaled back or cancelled.

**School Infrastructure Backlogs Grant:** A net addition of R540 million to the indirect component of the grant to provide potable water and safe sanitation for all schools that lack such services.

**6.3. Health conditional grants**

**HIV, TB, Malaria and Community Outreach Grant:** A total of R2.8 billion is added for a COVID-19 component to this grant to fund the purchase of personal protective equipment (PPE) and ventilators, and the hiring of additional staff, including the Cuban medical personnel.

**National Health Insurance (NHI) Grant:** A total of R338 million reduction in the

indirect component of the grant, mainly from the health facility revitalisation component.

**6.4. Human Settlements conditional grants**

**Human Settlements Development Grant:** A reduction of R1.7 billion is made in the direct component of the grant because of delays in planned projects due to the COVID-19 lockdown.

**Title Deeds Restoration Grant*:*** A total of R378 million reduction is made in the direct component of the grant due to the reduction in the number of title deeds issued. These funds are re-allocated to the direct component of the Provincial Emergency Housing Grant; and

**Provincial Emergency Housing Grant*:*** A total of R378 million is added to the grant for rapid provision of emergency housing solutions in areas where existing housing arrangements do not allow for social distancing or self-isolation, where required.

**6.5. Sports, Arts and Culture conditional grants**

**Community Library Services Grant:**A total of R312 million reduction in the direct

component of the grant. Provinces are required to scale back on the purchase of library materials, the construction of selected new libraries and the upgrading of selected existing libraries in 2020.

**Mass Participation and Sports Development Grant:**A total of R224 million reduction in the direct component of the grant due to the lockdown. Provinces will use funds from cancelled competitions to compensate the sport sector for the loss of earnings due to the restrictions on economic activity.

**6.6. Transport conditional grants**

**Provincial Roads Maintenance Grant:**A R1.8 billion reduction in the grant, consequently some maintenance projects planned for 2020 will be delayed.

**7. Changes to LGES and local government conditional grant allocations**

**7.1. Changes to LGES allocation**

A total of R11 billion has been added to the LGES through the following two components of the existing formula:

**Free basic services component:**A total of R7.5 billion is added to increase the provision of free basic services to an additional 1.4 million households.

**Community services component*:*** A total of R3.5 billion is added, subject to the municipal revenue adjustment factor, to assist poorer municipalities in the provision of services like environmental health, cemeteries and crematoria.

**8.2. Changes to local government conditional grant allocations**

**Urban Settlements Development Grant:**A total of R1.1 billion reduction in the direct component of the grant that will result in delays in planned projects. Funds for the upgrading of informal settlements through secure tenure and the provision of basic services have not been reduced.

**Public Transport Network Grant:**A total of R1.9 billion reduction in the direct

component of the grant due to delays in planned construction projects.

**Neighbourhood Development Partnership Grant:**A total of R68 million reduction in the direct component of the grant because of the postponement of capital expenditure due to restrictions on economic activity caused by the COVID-19 pandemic.

**Integrated National Electrification Programme (Indirect) Grant:**A total of R1 billion reduction in the indirect component of the grant due to a reduction in bulk infrastructure and household connections in Eskom-licensed areas.

**Integrated National Electrification Programme (Direct) Grant:** A total reduction of R500 million in the direct component of the grant due to reduction in bulk infrastructure and household connections in municipal-licensed areas.

**Energy Efficiency and Demand-Side Management Grant:**A total of R22 million

reduction in the direct component of the grant due to decrease in the number of planned energy-saving projects

**Infrastructure Skills Development Grant:**A total of R8 million reduction in the direct component of the grant in order to align to the request of the special adjustments budget.

**Municipal Systems Improvement Indirect Grant*:*** A total of R8 million reduction in the indirect component of the grant due to a reduction in the number of capacity support projects in municipalities.

**9. Submissions by stakeholders and the public**

**9.1. Financial and Fiscal Commission (FFC)**

The Financial and Fiscal Commission (FFC) supported the technical changes in the Bill, and was of the opinion that it enhanced accountability and flexibility in the implementation and adjustments. The FFC submitted that the national and local government spheres’ shares of nationally raised revenue was adjusted upwards, while the provincial share contracted compared to the 2020 Budget. The FFC further submitted that the challenges provinces faced, prior to the pandemic, in the provision of social services such as education, health, and social development and economic services like agriculture, roads and transport; have been amplified by the COVID-19 outbreak. This had the potential of delaying efforts aimed at addressing existing inequalities, especially with respect to access to quality education and healthcare as well as the implementation of reforms such as the National Health Insurance (NHI) and infrastructure projects.

The FFC further submitted that, while the provincial equitable share (PES) allocation had not changed, provinces had committed to reprioritise R20 billion from their own budgets for the COVID-19 response. Out of the R20 billion, R15 billion would be reprioritised to Health and R5 billion to other sectors. However, the FFC reported that the criteria for this reprioritisation had not been clearly determined and, in the absence of uniform criteria, provinces could deliver services unevenly. The FFC therefore proposed that each province should report to Parliament on the reprioritisation criteria it used.

The FFC noted the changes to provincial conditional grant allocations due to the COVID-19 pandemic and specifically, the significant downwards adjustments to the Human Settlements Development Grant (-10.40 percent), the Provincial Roads Maintenance Grant (-15.15 percent), the Education Infrastructure Grant (-20.18 percent) and the National Health Insurance (NH) Grant (indirect component) (-14.93 percent). The HIV, TB, Malaria and Community Outreach Grant and the Provincial Emergency Housing Grant were adjusted upwards by 11.67 percent and 125.82 percent, respectively, to assist in the fight against COVID-19. The FFC submitted that some of the cuts in conditional grant allocations had been due to government’s fiscal consolidation initiatives.

The FFC reported that, prior to the COVID-19 outbreak, the local government sector had been crippled by various challenges, including under-spending on capital budgets; lack of institutional capacity; declining own revenue collection; lack of accountability; poor financial management and governance, and generally failing to effectively and efficiently fulfil its constitutional mandate. The FFC further reported that some municipalities were repeatedly placed under section 139 interventions, but showed no signs of improvement thereafter. The FFC cautioned that these challenges should not be overlooked when dealing with the pandemic, as they could hamper the success of the COVID-19 interventions.

The FFC submitted that the total allocation to local government had increased from R102.9 billion in 2016/17 to R132.4 billion in 2020/21. In the adjustments budget, the allocation grows by 5.6 percent in nominal terms and 3.9 percent in real terms; and the increase is mainly due to the additional R11 billion provided through the local government equitable share (LGES). The FFC further pointed out that, while the President had announced an additional allocation of R20 billion to local government, the Bill only provided for an additional amount of R11 billion. The remaining R9 billion was to be reprioritised within various local government grants. The FFC was of the opinion that the R11 billion injection should rather have been allocated through a conditional grant that would balance rural-urban needs in the context of the pandemic, and act as a stimulus for cities as engines of growth. The FFC submitted that allocating this money through the LGES may not adequately compensate those municipalities experiencing the deepest revenue shortfalls due to the pandemic, like metropolitan municipalities. Rural municipalities realised less of a revenue loss, since their own revenue base had been very limited to begin with; while metropolitan municipalities experienced a disproportionate effect of the pandemic in terms of revenue losses, as they relied predominately on own revenues, and also in terms of COVID-19 induced expenditure needs, like emergency shelter, water and health facilities. The FFC submitted that there should be conditions attached to this additional allocation, in order to ensure that the funds were not used for salaries or other expenses that were not related to COVID-19.

The FFC reported that local government conditional grant allocations had been adjusted downwards by 8.9 percent from R51.4 billion in the 2020 Budget to R46.8 billion in the adjustments budget. While the FFC acknowledged the need to make funds available for COVID-19 interventions, it was of the view that the cuts should be targeted at under-performing grants to minimise the effect on service delivery. The FFC submitted that recurring reductions in performing grants such as the Urban Settlements Development Grant, the Public Transport Network Grant and the Integrated National Electrification Programme (Direct) Grant were a cause of concern as this had negative effects on project planning and infrastructure maintenance and created uncertainties for future growth-enhancing projects.

In summary, while acknowledging that reprioritisation was necessary to make funding available to address challenges associated with the pandemic, the FFC was of the view that reducing infrastructure grants aimed at rehabilitating and maintaining social and economic infrastructure, such as schools and provincial roads, would likely exacerbate the deterioration of infrastructure, potentially escalate costs in the future and affect outcomes. The FFC recommended that infrastructure rehabilitation and maintenance be prioritised in the outer years of the 2020 MTEF and that government should provide clear funding and delivery plans for delayed 2020/21 infrastructure projects and infrastructure maintenance. The FFC also expressed concern over the quality and reliability of the data used in the calculation of

different components of the Human Settlements Development Grant and in transport sector grants, emphasising that this needed to be considered in the review of the PES.

**9.2 South African Local Government Association (Salga)**

The South African Local Government Association (Salga) gave an overview of the proposed division of revenue among the three spheres, namely 50.1 percent to national, 41 percent to provincial and 8.9 percent to local government; and further highlighted the changes in the adjustments budget affecting local government. Salga submitted that there had been an increase of 5.3 percent in the overall allocation to the local government sphere compared to the February 2020 Budget, from 132.5 billion to R139.9 billion. However, Salga submitted that a total of R12.6 billion in conditional grant suspensions had been imposed on local government and more suspensions were anticipated to be imposed during the Medium Term Budget Policy Statement (MTBPS). Furthermore, municipalities were expected to adjust their budgets downward as a result of the COVID- 19 pandemic and the decline in anticipated revenue collections.

While acknowledging the additional R11 billion allocation to LGES to support municipalities’ increased expenditures related to the provision of services during the pandemic, Salga was of the opinion that this did not go far enough. Municipalities had reported aggregate revenue losses of up to 60 percent, resulting in an inability to manage positive cash flows as the economy deteriorated; and faced limited revenues while rising unemployment increased the number of indigent households resulting in rising debt levels due to COVID-19. Salga further reported that municipal consumer debt amounted to R181 billion, of which 83 percent was not realistically collectable. The municipal creditors book was also rising, amounting to R49 billion and Eskom reported R36 billion outstanding debt. This situation was further exacerbated by retracted economic growth.

Salga was concerned about the temporary in-year suspension of conditional grant funding amounting to R10.8 billion during 2020/21, as part of redirecting funds in response to COVID-19. Salga submitted that these suspensions would result in massive delays in projects and significant shortfalls in future revenue that would require a massive reprioritisation of funds. Salga submitted that, in terms of the multi-year wage settlement, local government workers should receive an agreed 6.25 percent wage increase in 2020/21; but that pronouncements made outside the South African Local Government Bargaining Council jeopardised and weakened organised local government’s position in the securing another multi-year agreement. In response to the negative audit outcomes in the local government sector, Salga reported that it had resolved to intensify the extraction of accountability from member municipalities through the implementation of consequence management.

Salga made the following recommendations:

* Revenue under-recovery as a basis for allocations should take into consideration the whole sector, not just metropolitan municipalities.
* An urgent review of the fiscal reform for local government should be conducted, over and above addressing COVID-19 related pressures.
* The LGES formula should portray realistic cost differences in municipalities, by eliminating single subsidy costing, and address the underfunding of local government.
* The October 2020 adjustments budget should take into account the impact of the real reduction in municipal revenues and the impact this may have on the local government sector in response to COVID-19 challenges and service delivery.

**9.3 Parliamentary Budget Office (PBO)**

The Parliamentary Budget Office (PBO) indicated that responding to the COVID-19 pandemic had become government’s central priority, placing huge responsibilities on primary health, mainly provided by provinces; social development, shared by national and provincial government; and peace and security, mainly provided by national government. The provincial equitable share (PES) remained unchanged at R538 472 million, with 3.7 percent, or an amount of R20 billion, being reprioritised; with R15 billion going towards health and R5 billion towards other services, like social development. The PBO further provided a summary of the amounts suspended from provincial and local government conditional grants; as well as of the changes to grant frameworks suggested by National Treasury to accommodate spending on additional COVID-19 needs, like the purchasing of personal protective equipment (PPEs). The PBO indicated that the effect of the suspension of conditional grant funds could not be monitored, because no targets had been set in the grant schedules for 2020/21.

The PBO reported the following from its evaluation of conditional grant schedules:

* The performance indicators were mainly output-driven;
* Most frameworks had a large number of outputs, with reprioritisation adding to this;
* A direct link with the budget per output was not possible; making it impossible to determine budget efficiency;
* Performance indicators or outputs were duplicated;
* No impact indicators were included; and
* Improvement of performance was not shown, making it difficult for oversight bodies, like Legislatures to determine the effectiveness of funds spent.

The PBO provided a summary of revenue and expenditure outcomes for metros and municipalities as at the end of the third quarter of 2019/20 as well as capital expenditure per province and per metro for the last three years. The PBO reported that not all revisions within the supplementary budget were due to the COVID-19 pandemic, and that the biggest share of nationally raised revenue was allocated to the national sphere, where efficient and effective spending should contribute to stimulate the economy. The PBO further reported that additional funding for COVID-19 did not focus on provincial health and social needs, and that provinces had to reprioritise for this within their own budgets.

Additional funding to local government was also not to improve or increase services, conditional grant funding to improve services had in fact been reduced, and this could possibly have a negative impact on the continuity of projects.

**9.4. Congress of the South African Trade Unions (COSATU)**

The Congress of South African Trade Unions (COSATU) welcomed the additional resources for key frontline departments, such as Health, Transport, Basic Education, Human Settlements and Water and Sanitation, in the fight against COVID-19. However, it questioned the reprioritisation of funds away from key economic departments, such as Employment and Labour; Trade, Industry and Competition; and Agriculture, Rural Development and Land Reform.

COSATU submitted that the adjustments budget –

* Lacked clarity in budget allocations;
* Lacked clarity on the impact of reprioritisations;
* Lacked details on fruitless and wasteful expenditure in infrastructure delays;
* Contained no details on the impact of not filling vacant posts; and
* Lacked details on the scope for permanent reductions in wasteful expenditure compared to austerity cuts.

COSATU was concerned over the findings in the report of the Auditor-General on municipal finances for the 2018/19 financial year, indicating that the budget was silent on what was being done to address the following:

* Only 20 out of 257 municipalities received clean audits.
* 28 municipalities were not audited due to failure to submit financial statements.
* 200 municipalities lost about R2.07 billion over past financial year.
* Irregular spending increased from R24.38 billion in 2017/2018 to R32.06 billion in 2018/2019.
* Municipalities spent R1.26 billion on consultants.
* Provincial and local government collectively owe Eskom approximately R37 billion.
* On average 10 percent of the budget allocation, more than R150 billion, was lost to corruption and wasteful expenditure annually.

COSATU submitted that 63 municipal workers had so far died from COVID-19 and 4 571 had tested positive. COSATU was concerned that many municipalities were not compliant with COVID-19 regulations by not providing workers with the necessary personal protective equipment (PPEs) and ensuring regular sanitisation of taxi and bus ranks. COSATU indicated that a lesson learnt from COVID-19, was that there was an urgent need to capacitate the State. To this end, COSATU urged government to honour the local government wage agreement that was in place and submitted that the plummeting inflation was an opportunity for engagement on the next three-year wage agreement. Furthermore, COSATU proposed a sliding scale and inflation protection increase; reduction in management packages and political costs; and a single-government collective bargaining process. It further suggested that the Public Investment Corporation (PIC) should provide home and education loans to public servants.

With regard to Basic Education, COSATU emphasised the negative impact of the past neglect of school infrastructure, especially relating to sanitation, and expressed concern at the failure of the Department of Basic Education to ready schools for reopening after the national lockdown due to COVID-19.

COSATU’s concerns included that –

* Only 54 percent of schools had sufficient sanitisers;
* Only 43 percent of schools needing water tanks had received them;
* Only 27 percent of schools had two masks for each learner and staff member;
* 47 percent of schools did not have sufficient teachers available due to co-morbidities; and
* 31 percent of schools did not have enough water for washing.

COSATU further questioned whether the reprioritisation of funds towards the Health sector was sufficient given the magnitude of the challenges caused by COVID-19. It further questioned the reduced allocation towards employment of healthcare personnel and was of the view that more health workers were needed. COSATU further questioned the emphasis on building temporary health facilities at the expense of building permanent health infrastructure, much of which had been neglected for years.

With regard to the Transport sector, COSATU expressed concern at the lack of a clear health and safety plan for Metrorail which resulted in most railway lines not being reopened and an increase in cable theft. While noting the need to finalise the R1.1 billion relief fund to the taxi industry, COSATU emphasised that it was critical for this funding to be linked to taxi owners becoming compliant with tax, labour, traffic and other laws.

Regarding Human Settlements, Water and Sanitation, COSATU submitted that there was no clear indication of the number of informal settlement areas to be upgraded and the associated time frames and the number of informal settlement areas that still did not have sufficient water and sanitation. According to COSATU, this information was crucial in the fight against the COVID-19 pandemic.

**9.5. C19 People’s Coalition**

The submission by the Cash Transfer Subgroup of the C19 People’s Coalition, formed part of the #PayTheGrants campaign, which was focusing on the just implementation of the promised COVID-19 Social Relief of Distress (SRD) Grant and the building of a broad alliance towards a Basic Income Guarantee for all. The C19 People’s Coalition was of the view that the supplementary budget failed to show solidarity with poor South Africans and the working class; highlighting that it made dramatic cuts in budget areas most crucial for the poor and working class people. These included R2 billion cut from Basic Education; R9.9 billion cut from Higher Education and Training; R2.3 billion cut from Human Settlements; R2.4 billion cut from Agriculture, and a R2.9 billion cut from Land Reform and Rural Development.

The C19 People’s Coalition submitted that the primary concern was the pandemic, yet only R2.9 billion of net additional funding was allocated for the entire Health sector, which, according to them, was less than half of the new funding allocated to the South African National Defence Force (SANDF) and the South African Police Services (SAPS).

The C19 People’s Coalition further submitted that government’s stimulus package had promised R50 billion for conditional grants, but in the adjustments budget this had decreased to R41 billion; making the adjusted amount only R26 billion more than the State would already have spent on conditional grants. The C19 People’s Coalition was also of the view that the amounts of the current grants were hugely insufficient, for example, the Child Support Grant was only R445, despite it being the most effective grant available to reduce food poverty. With severe levels of nutritional stunting in South African children, the Child Support Grant should at the very least, be raised to the food poverty line of R580.

The C19 People’s Coalition also felt that the amount of R350 for the COVID-19 Social Relief of Distress (SRD) Grant was far too low and for a much too short period of only six months. It made the following recommendations with regard to the SRD Grant:

* Clear and urgent communication was needed on the state of relief measures in general and in particular on the SRD Grant.
* The unethical exclusion criteria should be dropped.
* The massive shortfall in funding to #PayTheGrants should be addressed.
* Back-payment should be made to all who applied for the Grant, regardless of when the application was made.
* A commitment should be made to a Basic Income Guarantee for all.

**9.6. Mr MG Buthelezi**

Mr Buthelezi submitted that there should be no division of revenue, nor an amendment to the Act. He proposed that people should receive transfers in other forms than money, such as food, clothing, houses, rights to consult doctors without paying and travel tickets for buses, trains, flights, boats and taxis. He proposed a return of the barter system and submitted that land should be returned to its rightful owners so that they could use it to produce food and everything else required for survival.

**10. Provincial Mandates**

In compliance with section 76 of the Constitution, provinces were invited to the initial briefing of the Committee by National Treasury and some invited Committee Members to re-brief them on the *Division of Revenue Amendment Bill* [B9-2020]. Thereafter, provinces submitted their negotiating and final mandates, which the Committee considered during meetings on 17 and 21 July 2020, respectively.

**10.1 Negotiating Mandates**

10.1.1 Eastern Cape supported the Bill and raised concerns.

10.1.2 Free State supported the Bill and raised concerns.

10.1.3 Gauteng supported the Bill and made recommendations.

10.1.4 KwaZulu-Natal supported the Bill.

10.1.5 Limpopo supported the Bill and made recommendations.

10.1.6 Mpumalanga supported the Bill.

10.1.7 Northern Cape supported the Bill and made recommendations.

10.1.8 North West supported the Bill and made recommendations.

10.1.9 Western Cape did not support the Bill.

National Treasury was asked to provide detailed written responses to the issues raised by provinces and these responses were received and forwarded to provinces on 19 July 2020.

**10.2 Final Mandates**

10.2.1 Eastern Cape supported the Bill.

10.2.2 Free State supported the Bill.

10.2.3 Gauteng supported the Bill.

10.2.4 KwaZulu-Natal supported the Bill.

10.2.5 Limpopo supported the Bill.

10.2.6 Mpumalanga supported the Bill.

10.2.7 Northern Cape supported the Bill.

10.2.8 North West supported the Bill.

10.2.9 Western Cape did not support the Bill.

**11. Committee findings and observations**

Having deliberated and considered all the submissions made by the above stakeholders on *Division of Revenue Amendment Bill* (B9-2020), the Select Committee on Appropriations makes the following findings and observations:

11.1 Whilst the Committee is concerned about the need for government to enhance its financial management systems, strengthening internal controls, audit committees and monitoring and evaluation systems across government, it welcomes the net effect of the upward adjustments amounting to R43.2 billion proposed by the *Division of Revenue Amendment Bill* [B9 - 2020], which increases the overall budget allocation from R1.765 trillion to R 1.809 trillion, largely directed to government’s effort to fight the COVID-19 pandemic.

11.2 Whilst the Committee is concerned about the far-reaching implications of some reprioritised funds, particularly delayed projects, infrastructure maintenance to assist economic recovery and frontline service delivery, it notes that the R130 billion announced by the President to be reprioritised will come from provinces, savings on activities where implementation is impossible due to lockdown, identified under-expenditure of grant funding both at provincial and local government levels as well as delayed projects. While noting the exceptional circumstances that dictated the need for this Special Adjustments Budget, and the need to act with due expedition, it is vitally important that adequate consultation take place with the provinces on any key adjustments to their budgets. The Committee notes that most provinces said that they were not adequately consulted and expresses its concern about this.

11.3 Whilst the Committee welcomes the additional allocation of R540 million to the School Backlogs Grant, it is concerned about the shortage of teachers due to co-morbidities and the procurement challenges which led to a shortage of personal protective equipment (PPEs) for schools in some provinces, as this puts the lives of learners and teachers at high risk.

11.4 Whilst the Committee welcomes the research being undertaken by the National Disaster Management Centre together with national and provincial departments of agriculture to determine the correct amounts for disaster relief allocations, it was concerned about the slow pace to finalise this process to ensure that all affected provinces such as Northern Cape, Free State, North West and Gauteng are provided with such relief to protect the much needed food security and given that the state of the national disaster was declared by government in February this year. The Committee further views the current response to agriculture to ensure food security as insufficient, given the reduction in the Comprehensive Agricultural Support Grant (CASP) allocation and its implications for poor and vulnerable South Africans.

11.5 Whilst the Committee welcomes the additional R3.4 billion into the COVID-19 component of the HIV, TB, Malaria and Community Outreach Grant, and acknowledges that it is a provincial government’s prerogative to decide how to spend the allocated funds, it is concerned about the proper expenditure management systems and reporting for such allocations, given the media reports regarding the misuse of COVID-19 relief funds and the reported shortage of healthcare staff and ambulances in some rural communities which was hampering the government’s response to COVID-19.

11.6The Committee remains concerned about the R338 million reduction in the National Health Insurance (NHI) Grant indirect component, much of which was earmarked for the health facility revitalisation component, and the fact that this is going to delay the much needed implementation of universal access to healthcare services.

11.7 Whilst the Committee notes the unforeseeable and unavoidable amendments made to the Division of Revenue Act 2020 and acknowledging the need to repurpose some resources towards fighting the COVID-19 pandemic, it is concerned that government efforts are mostly directed to the pandemic with less or no emphasis on economic recovery measures; and feels that a balanced approach is needed in this regard to resuscitate the economy while fighting the pandemic.

11.8 Whilst the Committee welcomes the increase of the overall allocations to local government by 5.3 percent from R132.5 billion to R139.9 billion, it is seriously concerned over the report of the Auditor-General’s tabled on 1 July 2020 regarding the state of financial management, irregularities and wasteful expenditure in local government and media reports suggesting that COVID-19 relief funds were being mismanaged, food parcels being diverted and supply chain management processes being undermined, as this compromises service delivery to poor and vulnerable South Africans.

11.9 Whilst the Committee notes that National Treasury has issued circulars as standard guidelines for municipal procurement and reporting for COVID-19, it is concerned about the support National Treasury, the Department of Cooperative Governance and Salga are providing to municipalities who are experiencing decreased revenue collections; and the fact that allocations for the district development model were not expressly reflected in the proposed Bill to ensure alignment and avoid duplication between spheres.

11.10 Whilst the Committee notes the revenue decline in most municipalities, it remains concerned about municipalities who continue to owe Eskom as well as government departments owing municipalities, given the lack of national and local economic growth which contributed towards municipal revenue decline, job losses and increasing indigent policy beneficiaries.

11.11 The Committee further welcomes the additional R7.5 billion for free basic services targeting 1.4 million households; the total of R3.5 billion added, subject to the municipal revenue adjustment factor, to assist poorer municipalities; as well as the total of R378 million added to the Provincial Emergency Housing Grant for rapid provision of emergency housing solutions in areas where existing housing arrangements do not allow for social distancing or self-isolation, where required.

11.12 The Committee is concerned about the impact of the criteria in the suspension of local government conditional grant funding of R12.6 billion, whether it took into account the capacity to spend and programme performance, especially for well performing municipalities as this has the potential to punish communities. Whilst noting that some under-expenditure might be as a result of the COVID-19 lockdown regulations, the culture of slow spending or incapacity to spend by municipalities also remain a challenge. While noting the exceptional circumstances that dictated the need for this Special Adjustments Budget, and the need to act with due expedition, it is vitally important that adequate consultation take place with local government on any key adjustments to their budgets.

11.13 The Committee is concerned about the reported shortage of PPEs for municipal workers; taxi and bus ranks not being sanitised by municipalities; as well as unresolved issues of the public sector wage agreement, which now also included local government; and the late or non-payment of municipal workers in some provinces, which might lead to a potential protracted strike action and it is of the view that the country cannot afford to be in a destabilised situation during this time of the COVID-19 pandemic.

**12. Committee Recommendations**

The Select Committee on Appropriations, having considered submissions from various stakeholders on the *Division of Revenue Amendment Bill* [B9-2020], recommends as follows:

12.1 Government must improve and strengthen its financial management systems and internal controls units; appoint proper audit committees; and design and develop focused, properly aligned monitoring and evaluation systems with credible strategic plans across government to ensure that allocated resources are spent effectively and strictly according to the framework of the *Division of Revenue Amendment Bill* [B9 – 2020] in order to prevent wasteful and fruitless expenditure, irregularities and corruption with COVID-19 relief funds. Parliament, provincial legislatures and municipal councils should monitor the implementation through rigorous oversight and in-year monitoring programmes.

12.2 The Department of Basic Education (DBE), together with provincial education departments, should address the issues around the shortage of teachers due to co-morbidities and the shortage of personal protective equipment as this put the lives of learners and teachers at high risk. Furthermore, the DBE and provincial education departments should expedite the process of implementing proper permanent structures for water provision in schools, given that the trucking system is an expensive option.

12.3 The National Disaster Management Centre, together with the provincial departments of agriculture, should expedite the finalisation of research to establish the appropriate figure for the amounts required for national disasters, especially for provinces that are severely affected. Such relief will protect food security and jobs, given the state of national disaster declared by government in February this year. The Committee also believes that more allocations are required to be earmarked for the Comprehensive Agricultural Support Programme Grant (CASP) to further enhance food security and jobs for poor and vulnerable South Africans, especially during the COVID-19 pandemic.

12.4 With regard to the additional R3.4 billion for the COVID-19 component of the HIV, TB, Malaria and Community Outreach Grant, the Committee acknowledges that provincial governments have a prerogative to decide how to spend the allocated funds; however, National Treasury, together with the Department of Health, should ensure that these funds are spent according to the requirements of the *Division of Revenue Amendment Bill* [B9 – 2020] framework and ensure that section 38 (1) (b) and (c) of the Public Finance Management Act No. 1 of 1999, and other proper governance measures are properly implemented by provincial health departments to safeguard the management of the allocation. Provinces should further expedite the process of determining appropriate criteria to reprioritise the R20 billion within their allocated resources without disadvantaging the most rural and poor areas.

12.5 The National Treasury, together with the Department of Health, should ensure that adequate resources are made available to expedite the implementation of the National Health Insurance (NHI) to ensure that the implementation of the much needed universal access to health care services is achieved for the benefit of the poor and vulnerable, especially during the COVID-19 pandemic.

12.6 Whilst acknowledging the importance of fighting the COVID-19 pandemic successfully, the Committee is also of the view that National Treasury should ensure that a balanced approach is implemented, wherein efforts tailored to fight COVID-19 do not undermine the much needed economic resuscitation, social transformation interventions and goals and targets of the National Development Plan (NDP). Reprioritisation of funds should not be to the detriment of core business and frontline service delivery and programmes aimed at economic recovery, such as infrastructure projects, which will ultimately compromise government efforts to resuscitate the economy.

12.7 The National Treasury, the Department of Cooperative Governance and Salga should ensure that municipalities implement consequence management and hold those who have transgressed accountable and recover any funds lost as a result of corruption before and during the COVID-19 pandemic. They should further ensure that proper governance and financial control systems, as well as effective supply chain management are in place to prevent financial mismanagement and wasteful and fruitless expenditure and to safeguard the additional allocations to local government, while at the same time improving municipal audit outcomes. This should assist municipalities to provide personal protective equipment (PPEs) and ensure the sanitisation of taxi ranks. The extraction of political and administrative accountability as part of enforcing consequence management for municipalities by Salga should be supported.

12.8 The National Treasury, the Department of Cooperative Governance and Salga should work together to strengthen the level of support given to municipalities who are struggling to address revenue shortfalls as a result of the COVID-19 pandemic; and the circulars issued by National Treasury as standard guidelines for municipal procurement and reporting for COVID-19 should be enforced to ensure that proper management of expenditure for COVID-19 is achieved. Furthermore, the allocation for implementing the district development model, to ensure alignment and avoid duplication across spheres, should be clearly reflected in the budget.

12.9 The National Treasury, the Department of Cooperative Governance and Salga should ensure that all municipalities owing Eskom settle their financial obligations and all government departments owing municipalities also settle their obligations to assist in addressing municipal revenue shortfalls as a result of COVID-19. They should further ensure that debt collection and credit control mechanisms are properly implemented.

12.10 The National Treasury should conduct proper impact assessment to identify and address the root causes of under-spending before taking away or reprioritising resources from under-spending programmes. The Committee believes that this can only be used as a last resort as it negatively affects the poorer communities who depend on government services at a local government level. Different types of constructive interventions, including addressing the root causes of under-expenditure, should be identified and implemented to support struggling municipalities to ensure effective and efficient spending, and ultimately, value for money.

12.11 The National Treasury, the Department of Public Service and Administration and Salga should ensure that wage negotiations are conducted fairly and urgently resolve all labour-related matters without creating instability, especially on local government level and in frontline services, which will compromise the much needed delivery of basic services to poor and vulnerable South Africans during this time of COVID-19.

12.12 The Minister of Finance and National Treasury should ensure that adequate consultation is conducted with both the provincial and local government spheres, as part of improving intergovernmental relations, prior to any reprioritisation of funds. The Committee will monitor this in future and require National Treasury to report on the extent of its consultation with the provinces and local government on budgets.

**13. Committee Recommendation on the Bill**

The Select Committee on Appropriations, having considered the *Division of Revenue Amendment Bill* [B9 – 2020] (National Assembly-Section 76(1)) referred to it and classified by the Joint Tagging Mechanism as a section 76 Bill, reports that it has agreed to the Bill without amendments.

The Democratic Alliance (DA), the Economic Freedom Fighters (EFF) and the Freedom Front Plus (FF+) reserved their positions on this Report.

Report to be considered.