



Wes-Kaapse Provinsiale Parlement
Western Cape Provincial Parliament
IPalamente yePhondo leNtshona Koloni

Ref Number: 11/4/3

(Final Mandate Stage) Report of the Budget Committee on the *Division of Revenue Bill* [B 4–2017] (S76) (NCOP), dated 4 May 2017.

The Budget Committee having considered the subject of the *Division of Revenue Bill* [B 4–2017] (S76) (NCOP), referred to the Committee in terms of Standing Rule 220, recommends that the House confers on the Western Cape's delegation in the National Council of Provinces the authority to support the Bill.

MR D JOSEPH, MPP

CHAIRPERSON: BUDGET COMMITTEE

DATE: 4 May 2017



Minutes of the Select Committee on Appropriations

Date : 3 May 2017
Time : 12:00
Venue : Committee Room M514
Agenda : Consideration of Negotiating Mandates on the *Division of Revenue Bill* [B4-2017]

Attendance by Committee Members

Status	Name of Member	Political Party	Province
Present	Mr S J Mohai (Chairperson)	African National Congress (ANC)	Free State
	Mr C J de Beer		Northern Cape
	Ms T Motara		Gauteng
	Mr T C Motlashuping		North West
	Mr L P M Nzimande		KwaZulu-Natal
	Mr F Essack Mr O S Terblanche	Democratic Alliance (DA)	Mpumalanga Western Cape
	Ms B Mathevula	Economic Freedom Fighters (EFF)	Limpopo
	Mr L B Gaehler	United Democratic Movement (UDM)	Eastern Cape
Special Delegate	Mr C J van Rooyen	African National Congress (ANC)	Free State (Chairperson of Portfolio Committee on Public Accounts and Finance)

In attendance

Name of delegate	Organisation	Designation
Ms W Fanoe	National Treasury	Chief Director: Intergovernmental Policy and Planning
Mr S R Kenyon	National Treasury	Director: Local Government Budget Process
Mr T Plaatjie	National Treasury	Parliamentary Liaison Officer
Ms S Mhlana	Eastern Cape Legislature	Provincial Liaison Officer
Ms M Basson	Free State Legislature	Provincial Liaison Officer
Ms J Moeti	Gauteng Legislature	Provincial Liaison Officer
Mr E Jansen	KwaZulu-Natal Legislature	Provincial Liaison Officer
Ms M Seabela	Limpopo Legislature	Provincial Liaison Officer
Ms P Mbalo	Mpumalanga Legislature	Provincial Liaison Officer
Ms K Abrahams	Northern Cape Legislature	Provincial Liaison Officer
Ms M Kgagodi	North West Legislature	Provincial Liaison Officer

Parliamentary support staff

Parliamentary support staff	Designation
Mr L Y Nodada	Committee Secretary
Ms E Grunewald	Committee Secretary
Adv M L Tau	Content Advisor
Ms Y Brown	Researcher

1. Introduction

The Chairperson welcomed everyone present, and in particular the Chairperson of the Finance Committee of the Free State Legislature. He indicated that the purpose of the meeting was to consider negotiating mandates from provinces on the *Division of Revenue Bill* [B4 – 2017], and thanked the Provincial Liaison Officers who assisted in the budget process by ensuring mandates were received.

2. Consideration of Negotiating Mandates on *Division of Revenue Bill* [B4 – 2017]

The negotiating mandates on the *Division of Revenue Bill* [B4 – 2017] were tabled as follows:

Mr Gaehler presented the negotiating mandate of the Eastern Cape, which was in favour of the Bill, raising the following inputs and concerns:

- a) The districts accepted the Bill although they were not happy about the way revenue is allocated to municipalities. The district municipalities are again calling for the local government equitable share (LGES) formula to be reviewed, as the Eastern Cape keeps getting a low share due to the movement of its population to other provinces. The census done in 2010 should not be considered as relevant in allocating funding, as the period is too long and in between, the departments rely on community surveys that are not accurate and not as detailed as a census.
- b) The historical background, poverty and vastness need to be considered when allocating funds to municipalities; especially in the Eastern Cape Province. The unfair distribution of revenue results in dissatisfaction and hampering of service delivery, leading to public discontent.
- c) The districts are happy about the additional grants, such as the Early Childhood Development Grant and the Learners with Profound Intellectual Disabilities Grant; but these need to be strictly monitored to prevent double dipping. The Social Worker Employment Grant is also welcomed to employ some of the unemployed graduates, but districts are proposing a grant be provided to improve the current working conditions of social workers as professionals. (Entry level social workers are the lowest compared to other professionals in the public service.)
- d) In the 2018/19 Division of Revenue, the districts kindly request a grant for the building of dams, due to the fact that the Eastern Cape is always faced with droughts.
- e) The current allocation is not enough to cater for maintenance of old infrastructure such as roads and the distribution of electricity and water to rural areas and farms. The Sarah Baartman District Municipality (DM) has 14 000 kilometres of road that are in a very bad state and need to be regularly maintained as the citrus producing industry is situated in this area. Well-maintained roads will boost economic expansion.

This area also boasts 16 percent of the national milk production; however, it is a challenge to deliver due to the poor state of the roads.
- f) The municipalities also expressed concern regarding the municipalities that had their own budget prior to merging or amalgamating – after this process funds are allocated to one municipality and are not enough. The current funding of amalgamated municipalities must be reviewed.
- g) The non-allocation of the Municipal Infrastructure Grant (MIG) to Sarah Baartman DM has hampered service delivery as the DM is the biggest and some local municipalities have infrastructure challenges. The DM is asking that this grant be re-instated.
- h) Municipalities in the Sarah Baartman DM are prone to veld fires and are requesting additional funds as they have a challenge to pay fire fighters and insurance claims.
- i) The rectification of poorly built houses by the Department of Human Settlements cost municipalities huge amounts of money, as the allocated budget does not allow for the rectification.

- j) The issue of municipalities in poor, rural areas not being able to generate their own revenue in order to be self-sustainable needs to be looked at. A new strategy that involves Eskom allocating its own employees to each municipality will also assist municipalities in terms of ensuring that those households and businesses who are able to pay for municipal services and electricity, actually do so. The Department of Cooperative Governance and Traditional Affairs and the South African Local Government Association (Salga) should lead in facilitating a memorandum of understanding with Eskom to help municipalities collect revenue.
- k) The fact that the provincial and local government spheres' financial years are not aligned also needs to be re-looked; as there are funds arriving at municipalities just three months before the end of their financial year.
- l) The Provincial Transport Operations Grant is not funding Mayibuye and AB350 bus companies, but only funds the Algoa Bus Company. These bus companies are funded from the provincial equitable share (PES) due to the need for public transport. The subsidy should be extended to Mayibuye and AB350, in line with rural development being one of the priorities of government.
- m) There should be a focus on national conditional grant funding, or funding for higher education qualifications or, alternatively, a specialised FET within the agriculture sector, taking into account the emphasis on agriculture development in the Eastern Cape Province.

The special delegate from the province, Mr C J van Rooyen, presented the negotiating mandate of the **Free State**, which was in favour of the Bill, with the following recommendations and observations:

- a) The Portfolio Committee requests that the current Equitable Share formula be reviewed as it is not biased towards rural and poor municipalities.
- b) In terms of Section 214(2) of the Constitution all inputs received from provincial governments, organised local government and the Financial and Fiscal Commission should be considered before the Bill is tabled in the National Assembly.
- c) The basic services component as contained in the provincial equitable share formula should be reviewed in order to consider the burden of additional basic services that the Free State Province renders and, in addition, the entire provincial equitable share formula should be reviewed in order to address the province-specific funding needs as a result of its transit status.
- d) National Treasury should include unfunded mandates of certain municipalities, for example library functions.
- e) Funding of district municipalities should be reviewed in order for them to support and coordinate the local municipalities in their respective districts.
- f) Intergovernmental relations are not functional and effective due to poor political leadership.
- g) The allocation to the Department of Basic Education should be increased in order to address the huge backlog with regard to nutritional support to learners.

- h) National Treasury must ensure that a sufficient allocation of the Water Services Infrastructure Grant to the Free State Province is effected due to the severe water shortages and the crippling drought that affect rural communities in the Free State Province.
- i) With regard to the Bucket Eradication Grant, the Free State municipalities, especially Setsoto, Tokologo, Masilonyana and Ngwathe local municipalities, should not be penalised for the inability of the national departments responsible for the infrastructure in terms of these indirect grants, to deliver. The allocation must be redistributed within the Free State municipalities, given the huge backlog.
- j) The Provincial Roads Maintenance Grant must be increased to a level where it addresses the backlog due to the Province being a corridor province.
- k) The allocation of the Disaster Drought Relief Grant to the Free State Province is insufficient and must be increased and rather be in the form of a direct grant to the provincial Department of Agriculture and Rural Development, to ensure sufficient distribution.

Ms Motara presented the negotiating mandate of **Gauteng**, which was in favour of the Bill, with the following recommendations:

- a) National Treasury should maintain a delicate balance between government debt as a percentage of the GDP and fiscal policy targets without compromising service delivery.
- b) National Treasury should constantly update the provincial equitable share data to ensure validity and reliability of such data in making transfers to the provinces.

Mr Nzimande presented the negotiating mandate from **KwaZulu-Natal**, which was in support of the Bill.

Ms Mathevula presented the negotiating mandate from **Limpopo**, which was in favour of the Bill, with the following recommendations:

- a) There should be differentiation on how communities benefit from the R359 allocation. This allocation should benefit the intended beneficiaries and appropriate systems should be developed to avoid the manipulation thereof.
- b) Tools guiding appropriation processes of equitable share to provinces should be regularly reviewed to ensure that informed allocations are made. Credibility of information pertaining to the population index should be verified.
- c) Research should be conducted on curriculum development for Early Childhood Development (ECD) in order to ensure that it is in the best interest of learners and the country. Therefore funding of ECD grants should be increased to meet the socio-economic needs of the country and Limpopo in particular.
- d) Funding of FMPPLA should be made clear in the Division of Revenue Bill.
- e) It is important for government departments to update immovable asset registers so as to enable treasuries to assist municipalities by ensuring that rates and taxes owed by departments are paid to municipalities accordingly.

- f) There should be an indicative criteria in the Bill for allocation for free basic services offered to municipalities.
- g) National Treasury should find a way to enforce measures to deal with the asset, repairs and maintenance budget at municipalities.

Mr Essack presented the negotiating mandate from **Mpumalanga**, which was in favour of the Bill, with the following recommendation:

It must be ensured that municipal budgets fund the 8 percent equivalent of the value of their assets to maintenance; and furthermore, that the 8 percent must indeed be spent on the maintenance of assets.

Mr De Beer presented the negotiating mandate from **Northern Cape**, which was in favour of the Bill, with the following recommendations:

- a) The Provincial Roads Maintenance Grant should be increased to address the poor condition of the roads infrastructure in the Province.
- b) In the review of the equitable share formula, National Treasury must take into consideration the vastness of the Province and the extreme weather conditions, especially in winter and summer.

Mr Motlashuping presented the negotiating mandate from **North West**, which was in favour of the Bill, taking into account the following recommendations:

- a) The Committee should sit on all strategic meetings during the budgetary process to ensure that the Legislature influences the budget.
- b) The Treasury should bring the Committee on board on all aspects of the budgetary processes at a provincial and national levels.
- c) Conditional grants must be spent appropriately so as to yield good results for communities.
- d) Government should ensure that the establishment and upgrading of sports facilities get aggressive attention.
- e) There has to be a monitoring mechanism to avoid under-expenditure and roll-overs in departments and municipalities.
- f) The allocations for bucket eradication in the province must be monitored intensely, to ensure the issue is promptly addressed.

Mr Terblanche presented the negotiating mandate from the **Western Cape**, which was in support of the Bill.

The Chairperson gave the **National Treasury** the opportunity to respond to some of the issues raised.

The delegation from the National Treasury undertook to provide the Committee with a written response to the issues raised and in addition the Chief Director, Ms W Fanoë, and Director, Mr S Kenyon, made the following preliminary comments:

- There is always tension in the system between the needs of vast rural, and densely populated urban provinces. With the current review of the provincial equitable share (PES), Treasury is looking at international examples of how to deal with this, and will

give feedback to the Committee on work done during the Medium Term Budget Policy Statement (MTBPS) process.

- With regard to the learner-count in provinces, National Treasury relies on the Department of Basic Education (DBE) for the correct numbers. The DBE is currently improving their system to provide better information. An update on this will also be provided during the MTBPS process.
- After the previous review, the local government equitable share (LGES) formula was specifically biased towards rural municipalities. The big changes to municipal allocations necessitated a five year phasing in period. This is the first year Treasury will be able to assess the full impact of the new formula on municipalities.
- Because the equitable share is an unconditional transfer, Treasury cannot set rules on the spending thereof; but they do provide guidelines.
- Expenditure on maintenance is one of the four game changers that National and Provincial Treasuries have agreed on; and much more emphasis will be placed on the monitoring thereof. Work has also already been done on how infrastructure grants can be used to reward good maintenance practices.
- The bucket eradication grant has ended. This grant only ever funded the eradication of the bucket system in formal residential areas. Outstanding projects will be funded through water and sanitation grants. The informal settlements where the bucket system still exists, must be addressed through grants like the Urban Settlements Development Grant.
- There is a significant change in the Bill with regard to the funding of district municipalities (DMs). This is aimed at assisting the poorest DMs. In addition, it only makes sense to have a new funding model for DMs if there is clarity on their functions. The Department of Cooperative Governance and Traditional Affairs is currently working on this.
- The Eastern Cape's request regarding the building of dams will be taken up with the Minister of Water and Sanitation, as it is a national competency.
- The National Treasury expressed concern over the houses in the Eastern Cape not being up to standard; as well as the fact that municipalities, and not the province, are fixing it. They will take it up with the Minister of Human Settlements, as it is a performance issue.
- It is true that there sometimes is a reduction in the equitable share when two municipalities are merged; but a grant is allocated to assist municipalities with the transitional costs. In addition, the impact of changes are phased in.
- Treasury acknowledged that the key issue of drought is not being dealt with properly, mostly due to breakdowns in communication. In many cases, National Treasury does not get any submissions. The National Disaster Management Centre is aware of this problem and it will be taken forward.
- Regarding the issue of unfunded mandates; Treasury indicated that there should be a funding agreement with municipalities. This should be done on an agency basis. If specific cases of provinces not transferring funding, are brought to Treasury's attention, they will take it up.
- Regarding requests for the Provincial Roads Maintenance Grant to be increased, Treasury indicated that an incentive component has been built into the grant from this year, so that funding is increased when a province is doing the right things.
- National Treasury is working with provincial treasuries to assist in building a support strategy for municipalities; and to assist provincial treasuries to do the necessary monitoring. At the moment some provinces are much stronger in their support than others. This is something that the Committee can take up in its oversight.

- Some of the recommendations are linked with implementation, rather than the Division of Revenue.

The Committee agreed that it would hold a meeting to receive the proposed feedback from National Treasury during the MTBPS process, and that the Select Committees on Health and Education, as well as provincial chairpersons, would be invited.

The Chairperson thanked National Treasury for their input and released the delegation from the meeting.

3. Consideration of draft Minutes

The Chairperson tabled the draft Minutes of 14 March 2017, which were considered and duly adopted, moved by Mr De Beer and seconded by Mr Motlashuping.

4. Closing Remarks by Chairperson

The Chairperson thanked Members for their attendance and participation. He informed the Committee that he would provide an update on progress with the proposed international study tour after he had met with the support staff.

5. Adjournment

The meeting adjourned at 12:58. The next meeting would take place on 9 May 2017, when the Committee would consider final mandates and a draft Report on the *Division of Revenue Bill* [B4 – 2017].

Mr S J Mohai
Chairperson: Select Committee on
Appropriations

Date