

REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM ON THE DIVISION OF REVENUE BILL [B2-2018]

1. INTRODUCTION

The Speaker referred the **Division of Revenue Bill [B2-2018]** (the Bill) to the **Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism** (the Committee) for consideration and report back to the House in accordance with Rule 201 of the Rules and Orders of the Mpumalanga Provincial Legislature, (the Rules).

The Legislature has a mandate to consider, pass, amend and reject any bill before it as per Section 114 of the Constitution of the Republic of South Africa, 1996 (the Constitution). It is also required in terms of Section 118(1) of the Constitution, to facilitate public involvement in the Legislative and other processes of the Legislature and its Committees. Therefore, the Committee was required to conduct a public hearing to solicit inputs or views of the public on the above-mentioned Bill and report back to the House.

2. OBJECTIVES OF THE BILL

The objectives of this Bill are to provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2018/19 financial year, the determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share and the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

Section 214(1) of the Constitution requires an Act of Parliament to provide for:

- a) The equitable division of revenue raised nationally among the national, provincial and local spheres of government;
- b) The determination of each province's equitable share of the provincial share of that revenue; and

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

3. METHOD OF WORK

The Committee interacted on the Bill as follows:

- a) The National Council of Provinces (NCOP) Permanent Delegate, Hon F Essack, officials from the National Treasury: Ms D Ubogu, Mr. C Adams and Mr. W Voigt briefed the Committee on the Bill on 27 March 2018.

The South African Local Government Association (SALGA) in Mpumalanga and the Mpumalanga House of Traditional Leaders were invited to the meeting; however, they were not present at the briefing. The Committee determined that public input should be solicited on the Bill and a public hearing was conducted on 17 April 2018 in the three (3) districts.

- b) The Committee met on 20 April 2018 to consider the draft Committee Report on the Bill; and to finalise the Negotiating Mandate.

- c) On the 26 April 2018, the Committee met to finalise the Final Mandate on the Bill.

4. BRIEFING ON THE BILL

4.1. Presentation by the NCOP Permanent Delegate, Hon F Essack

The NCOP Permanent Delegate made, in summary, the following remarks:

- i. The Bill was introduced by the Minister of Finance on 21 February 2018 during his Budget and Policy Statement; and is in compliance with the requirements of the Constitution and the Money Bills Amendment Procedure and Related Matters Act, 2009.
- ii. Since the Bill includes provisions affecting the financial interests of the provincial sphere of government as contemplated in section 76(4)(b) of the Constitution, the Bill is

therefore dealt with in accordance with the procedure envisaged by section 76(1) of the Constitution.

- iii. The 2018 budget is formulated against the backdrop of an economy that is vulnerable to negative domestic and external factors.
- iv. Low fragile growth is making it difficult to address the triple challenges of high social ills: (unemployment, poverty and inequality). Rising levels of impatience with social conditions has made this one of the toughest budgets to craft.

4.2. Presentation by National Treasury

4.2.1. In the presentation made to the Committee the following were highlighted for the 2018/19 financial year:

- a. A total of R470.3 billion is allocated to the provincial equitable share and R100.7 billion to conditional grants, which includes an unallocated R123.6 million for the provincial disaster relief grant.
- b. It was reported that the 2018 MTEF allocations for provinces grow at an average annual rate of 6.9%.
- c. Of these amounts, Mpumalanga province receives R46 404 billion of which R38 468 billion is provincial equitable share and R7 937 billion is provincial grants transfers.

Allocations for natural disasters

- d. Mpumalanga will receive R6.9 million as a disaster fund for the infrastructure that was damaged by floods.

Human Settlements Grant

- e. A total of R842 million is ring-fenced for the Finance Linked Individual Subsidy Programme (FLISP). The following funds have been allocated to Mpumalanga and may only be utilized to fund projects and related infrastructure (including bulk) for housing and human settlements developments in the following prioritized mining towns:
 - eMalahleni – R63.9 million
 - Steve Tshwete – R37.5 million
 - Thaba Chweu – R32.9 million

Local Government Transfers

- f. Over the 2018 MTEF period, R382.8 billion will be transferred directly to local government. A further R21.8 billion has been allocated to indirect grants.

Public Transport Network Grant

- g. The Public Transport Network Grant, administered by the Department of Transport, helps cities create or improve public transport systems in line with the National Land Transport Act, 2009 and the Public Transport Strategy. The City of Mbombela receives R203.5 million on this grant.

Assisting the worst performing municipalities to turn around

- A new Municipal Restructuring Grant may be introduced from 2019/20:
 - to support for the implementation of financial recovery plans
 - municipalities must demonstrate commitment to implement necessary reforms before they access funding (including contain employee related costs, limiting non-priority spending, increasing revenue collection and adopting funded budgets)
 - it will not bail out municipalities
 - If necessary, government may place municipalities under intervention
 - National Treasury will work with all stakeholders during 2018 to design the details of this programme, and ensure alignment of other capacity support.
- h. To promote better alignment with the MFMA, and in line with the FFC's recommendation to "improve access to credit for large cities by allowing them to use their infrastructure grant funding allocations to leverage private capital" the following change is proposed:
- i. Clause 8(4) is changed to remove the approval of "pledges" against conditional grants
 - ii. Instead, credit-worthy municipalities can borrow in terms of the processes, criteria and safeguards set out in the MFMA, including public disclosure and requiring Council approval for loans
 - iii. The redrafted clause 8(4):

- In addition to the consultation already required in the MFMA, the transferring officer and provincial treasury must be consulted on any borrowing that includes grant funds;
- Gives National Treasury the authority to prescribe how grant funds that have been borrowed against should be reported on;
- Removes the effective 2-year limit on borrowing that includes grant funds, allowing for longer-term financing for infrastructure investment

4.2.2. Changes to the conditional grants in 2018/19 include the following:

i. Supporting development in intermediate cities

- From 2019/20, the department will introduce a new grant, namely: Integrated Urban Development Grant:
- Cities can apply to join the grant, and must meet minimum criteria
- An incentive component will reward good performance
- Monitored against an integrated capital investment programme to enable more integrated planning, and blending of own funding
- The grant will initially be funded through a reprioritization of existing MIG allocations.

ii. Bucket Eradication Programme

- The eradication of bucket systems in formal areas (as confirmed in 2015) will be completed in 2018/19. Just over R1 billion is ring-fenced for this within the indirect Water Services Infrastructure Grant and the Regional Bulk Infrastructure Grant.

iii. Municipal Demarcation Transition Grant

- This grant ended in 2017/18 (in line with the FFC recommendation for a 3 year grant).
- Some funds for the completion of transition work have also been made available in the Municipal Systems Improvement Grant (indirect).

4.2.3. Monies owed by government to municipalities

- Debts totaling R4 billion have been verified and departments have settled R1.6 billion of outstanding debts
- MFMA Section 71 reports as at 31 December 2017:

- Provincial government owed R3,7 billion, a small decrease on the R4.0 billion reported as at 30 June 2017
- National government owed R2,9 billion, a small increase on the R2.5 billion reported as at 30 June 2017
- It is recognised that the “culture of non-payment” threatens municipal financial sustainability
- While progress is being made in reducing the total outstanding debt, this must be accelerated. The Minister of Finance, in his 2018 Budget Speech advised that NT’s DG “will issue a directive to all government departments and public institutions, instructing them to pay suppliers on time, or be charged with financial misconduct.”
- National Treasury is collaborating with local government stakeholders to focus on efforts that will positively impact achieving municipal financial sustainability in the longer term.

The table below outlines the monies owed by government to municipalities per department:

Debtors Age Analysis per Customer Group
Published Figures as at 2018/18/31 for Q2
Location Level Selected: National (All)
Financial Year End : 2018
Period : Month 6, December
Figures in R'000
Mpumalanga Provincial Departments

	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total
Customer Description	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000
Provincial: Agriculture	0	0	0	0	0	0	0	0	0
Provincial: Education	0	0	0	0	0	0	0	0	0
Provincial: Health	0	0	0	0	0	0	0	0	0
Provincial: Housing and Local Government	0	0	0	0	0	0	0	0	0
Provincial: Office of the Premier	0	0	0	0	0	0	0	0	0
Provincial: Other Departments	1 204	768	369	191	2 712	22 943	0	0	28 187
Provincial: Public Works, Roads and Transport	9 569	2 517	1 362	18 333	3 322	1 606	8 481	16 359	61 550
Provincial: Social Development	0	0	0	0	0	0	0	0	0
Provincial: Sport, Arts and Culture	0	13	11	18	4	0	0	0	46
TOTAL	10 773	3 298	1 742	18 542	6 038	24 549	8 481	16 359	89 783

Mpumalanga 2018 MTEF Provincial Conditional Grant allocations

Below are the 2018 MTEF Provincial Conditional Grant allocations:

Mpumalanga Conditional Grant Allocations				
R Thousands	2018/19	2019/20	2020/21	2018 MTEF
Total transfers to provinces	46 404 343	49 394 492	52 609 270	148 398 104
Provincial equitable share	38 467 686	41 394 597	44 654 600	124 416 883
Conditional grants	7 936 657	7 989 895	8 054 670	23 981 221
Agriculture, Forestry and Fisheries	229 459	230 362	244 949	704 770
Comprehensive Agricultural Support Programme Grant	162 907	159 717	170 418	493 042
Ilime/Lefsema Proj/MPUs Grant	56 242	61 504	64 867	184 633
Land Care Programme Grant Poverty Relief and Infrastructure Development	8 310	9 141	9 644	27 095
Arts and Culture	162 479	171 389	180 910	514 778
Community Library Services Grant	162 479	171 389	180 910	514 778
Basic Education	1 569 321	1 500 852	1 635 951	4 706 124
Education Infrastructure Grant	838 551	730 112	810 132	2 378 795
HIV and AIDS (Life Skills Education) Grant	20 819	21 919	22 994	65 732
Learners With Profound Intellectual Disabilities Grant	20 709	24 679	27 884	73 472
Maths, Science and Technology Grant	38 206	40 354	42 794	121 354
National School Nutrition Programme Grant	651 036	683 588	732 147	2 066 771
Health	2 326 995	2 548 780	2 794 916	7 670 691
Comprehensive HIV, AIDS and TB Grant	1 744 627	1 939 243	2 160 377	5 834 247
Community Outreach Services Component	153 858	164 848	164 848	483 554
Health Facility Revitalisation Grant	333 935	347 212	366 310	1 047 457
Health Professions Training and Development Grant	114 279	120 678	127 315	362 272
Human Papillomavirus Vaccine Grant	17 665	18 654	19 680	55 999
National Tertiary Services Grant	116 489	122 993	131 234	370 716
Human Settlements	1 330 161	1 377 458	1 465 040	4 172 659
Human Settlements Development Grant (HSDG)	1 278 427	1 322 632	1 407 412	4 008 671
Title Deeds Restoration Grant	51 734	54 826	57 628	163 988
R Thousands	2018/19	2019/20	2020/21	2018 MTEF
Public Works	89 057	-	-	89 057
Expanded Public Works Programme Integrated Grant for Provinces	32 616	-	-	32 616
Social Sector Expanded Public Works Programme Incentive Grant for Provinces	56 241	-	-	56 241
Social Development	58 175	61 826	65 968	185 969
Early Childhood Development Grant	41 998	44 344	47 315	133 657
Subsidy Component	8 143	8 596	9 172	25 911
Maintenance Component	33 855	35 748	38 143	107 746
Social Worker Employment Grant	16 177	17 462	18 653	52 312
Substance Abuse Treatment Grant	-	-	-	-
Sport and Recreation South Africa	46 463	48 408	50 798	145 669
Mass Participation and Sport Development Grant	46 463	48 408	50 798	145 669
Transport	2 124 547	3 467 205	2 555 334	8 147 087
Provincial Roads Maintenance Grant	1 523 757	2 050 820	1 616 138	5 190 714
Public Transport Operations Grant	600 790	1 416 386	939 197	2 956 372
Allocations earmarked for flood repair:	13 850	-	-	13 850
<i>The allocations above include the following earmarked for repair of flood damage:</i>				
Comprehensive Agricultural Support Programme Grant	6 925	-	-	6 925
Education Infrastructure Grant	6 925	-	-	6 925
Health Facility Revitalisation Grant	-	-	-	-
Human Settlements Development Grant	-	-	-	-
Provincial Roads Maintenance Grant	-	-	-	0
HSDG allocations earmarked for mining towns:	134 350	134 350	134 350	403 050
<i>The HSDG allocations include the following earmarked additions for mining towns:</i>				
Emalahleni	63 977	63 977	63 977	191 931
Steve Tshwete	37 467	37 467	37 467	112 401
Thaba Chweu	32 906	32 906	32 906	98 718

4.2.3. Mpumalanga Local Government Conditional Grant allocations for the 2018 MTEF

The Mpumalanga Local Government Conditional grants allocations for the 2018 MTEF are as per the table below:

Conditional Grant Allocations, 2018 MTEF

	2018/19 R'000	Forward Estimates	
		2019/20 R'000	2020/21 R'000
Infrastructure transfers to local government	3 281 642	3 693 946	3 892 833
Direct transfers	2 797 170	2 934 347	3 116 678
Municipal infrastructure grant	1 789 358	1 791 621	1 894 626
Water services infrastructure grant	409 674	359 000	389 295
Integrated national electrification(municipal) programme grant	169 258	214 702	217 401
Public transport network grant	203 454	198 918	209 859
Neighbourhood development partnership (capital)	44 140	13 225	39 420
Regional bulk infrastructure grant	174 440	349 631	358 407
Rural roads asset management systems grant	6 846	7 250	7 670
Indirect transfers	484 472	759 599	776 155
Integrated national electrification programme (Eskom) grant	272 777	453 503	477 389
Neighbourhood developmentpartnership (technical assistance)	400	1 233	1 400
Regional bulk infrastructure grant	211 295	291 863	297 366
Water services infrastructure grant	-	13 000	-
Capacity transfers and other current transfers	154 494	99 725	108 594
Direct transfers	143 889	88 175	93 394
Local government financial management grant	37 525	40 740	45 674
Expanded public works programme integrated grant for municipalities	60 311	-	-
Infrastructure skills development grant	28 053	30 435	30 720
Energy efficiency and demand-side management	18 000	17 000	17 000
Indirect transfers	10 605	11 550	15 200
Municipal systems improvement grant	10 605	11 550	15 200
Total Mpumalanga municipalities	3 436 136	3 793 671	4 001 427

Source: Division of Revenue Bill 2018

4.3. Input by the Provincial Treasury

- The Provincial Treasury reported that they were made aware of the grants that were to be reduced during the financial year.
- The Head Official reported that it is unfortunate that the province was not able to spend on the Education Infrastructure Grant. The province missed an opportunity to utilise the grant to answer the call of eradicating unsafe pit toilets in schools.
- The Treasury welcomes the introduction of the Learner Unit Record Information Tracking System (LURITS). A concern was raised that there are still challenges uncounted with the LURITS system. The province is bordering with other countries and learners cannot

be turned away because they don't have ID numbers. These learners are not taken into account during budget allocations.

- Treasury acknowledged the low expenditure on the Health Facility Infrastructure Grant at 47% (54% at the end of February 2018) and the Education Infrastructure Grant at 72% (79% at the end of February 2018). Treasury reported that they are closely monitoring the spending on the grants in an effort to improve the expenditure.
- Treasury reported that the amount of debts owed by the provincial government to municipalities can be reduced if the issue of billing by municipalities can be improved. This is an opportunity for Treasury to go out and support the municipalities that are struggling.
- The Department of Public Works Roads and Transport is significantly affected. This is evident on the amount of accruals that the department has.

4.4. Input by the Legislature Legal Team

- The Legislature Legal team reported that the Bill conformed to the constitutional requirements. The Committee will then have to process the Bill in line with the Rules and Orders of the Mpumalanga Provincial Legislature and facilitate public involvement.
- Furthermore, the legal team appreciated the timeframe allocated to the province to process the Bill and conduct consultations with members of the community.

4.5. Interactions by the Committee:

- i. The Committee appreciated that sufficient time has been allocated to the Committee to process the Bill.
- ii. The Committee raised a concern that the province was not doing well in eradicating the unsafe pit toilets in schools. A concern was raised on the status of the pit toilets that are used in schools in the Bushbuckridge Municipality.
- iii. Taking into consideration that the province is mostly rural, the Committee raised a concern that the Municipal Infrastructure Grant was reduced during the financial year.
- iv. The Committee raised a serious concern on the monies that are owed by provincial governments to the local municipalities.
- v. A concern was raised on the slow spending of grants. The Committee enquired if the provincial treasury had a system of monitoring spending on grants to avoid funds being surrendered.

5. PUBLIC HEARINGS

In order to adhere to Section 118(1) of the Constitution that mandates the Legislature to facilitate public involvement in the legislative and other processes of the Legislature and its Committees, the Committee resolved to conduct a public hearing that was held on 17 April 2018 in the three districts. Invitations were sent to the Bushbuckridge, Dr. JS Moroka and Mkhondo Local Municipalities. The local municipalities were represented on the public hearings.

5.1. Public Involvement

Invitations to the public hearings were extended to a broad segment of stakeholders. The Committee made a call for attendance of the public hearings and to submit written submissions by using the Mpumalanga News (12 April 2018). The Bill was also published on the Legislature Website and social media.

No written comments were received in respect of the advertisements in newspapers.

The Public Participation and Petitions Unit of the Legislature mobilised communities in all three districts of the province to attend the public hearings. The public hearings were conducted in the following venues:

- Mkhuhlu, Bushbuckridge Local Municipality [Ehlanzeni District]
- Vaalbank, Dr. JS Moroka Local Municipality [Nkangala District]
- Amsterdam, Mkhondo Local Municipality [Gert Sibande District]

During the public hearings, Committee Members conducting the public hearing explained that the Legislature seeks input and opinion on the legislation at hand from specific stakeholders and communities in the province. It was emphasised that the inputs by stakeholders and communities are very important to the Legislature and they will be considered and conveyed to the NCOP and National Government through the relevant channels.

The public was provided with a thorough overview on the Bill; and the Legal Section from Legislature and the Provincial Treasury assisted the Committee at the public hearings.

a. Members of the public in Kwa-Thandeka Community Hall in Amsterdam raised that:

- Government appropriates money but there will always be an underspending on the appropriation by departments.
- Amsterdam is underdeveloped and requested the Legislature to do oversight on the budget spent.
- The Ward Cllr Mr Makhathini indicated that the budget appropriated to the Municipality goes into projects that are officially registered. Community members are encouraged to attend the IDP Plenary meeting for the 2018/19 and 2019/20 financial year, for their inputs.

b. Members of the public in Mkhuhlu Community Hall raised that:

- The budget for the department of Health should consider provision of specialized doctors in the local hospital e.g. breast and prostate cancer.
- The budget allocated for Department of Education must be utilized a provision of a special school for children with disability at Bushbuckridge.

c. Members of the public in Libangeni Community Hall raised that:

- A concern was raised that there was no budget allocated for the Subsistence Abuse Treatment Grant.
- A request that the Legislature must monitor how the budget is utilised by departments.
- The equitable share allocated to local municipalities is not sufficient. This raises a challenge when the IDP of the municipality is drafted. Community members want projects that the municipalities cannot afford.
- The Department of Education took a bigger share of the budget in comparison with the budget allocated for the Department of Economic Development. He made a suggestion that more budget should be allocated to the Department of Economic Development so more jobs can be created to absorb the unemployed graduates. He requested the Legislature to ensure that the Department of Economic Development financially assist cooperation.

- Members of the public enquired why only the three mining towns were selected to be funded.
- A concern was raised that the budget allocated to Dr. JS Moroka Local municipality was not sufficient and that the municipality was not able to generate enough own revenue.

Comments by the Public

- All issues raised in the public hearing were adequately responded to by the Honourable Members, Legislature Legal Team and officials from the Provincial Treasury.
- The public agreed in general on the proposed objectives of the Bill and agreed unanimously that the Bill should be passed as an Act.

6. FINDING BY THE COMMITTEE

The Committee made the following finding:

- a. During the public hearing process, members of the community supported the Bill and that it should be passed as an Act.

7. RECOMMENDATION BY THE COMMITTEE

- a. The delegation representing the Province of Mpumalanga in the National Council of Provinces (NCOP) is conferred with authority and mandated to vote in favour of the Division of Revenue Bill [B2-2018] without any proposed amendments, taking into account the input and observations noted in this report.

8. CONCLUSION

The Chairperson extends the Committee's gratitude to all invited stakeholders who took the time to meet with the Committee to interact on matters pertaining to the Bill. A word of appreciation is extended to the Committee Members, National and Provincial Treasury who actively participated in the briefing and public hearing to ensure that the objective of the hearing was achieved.



03.05.2018

HON FV MLOMBO, MPL
CHAIRPERSON: PORTFOLIO COMMITTEE ON
PREMIER'S OFFICE; FINANCE;
ECONOMIC DEVELOPMENT AND TOURISM

DATE