

GAUTENG PROVINCIAL LEGISLATURE

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

Thursday, 28 May 2020

ANNOUNCEMENTS

none

TABLINGS

none

COMMITTEE REPORTS

1. The Chairperson of the Finance Portfolio Committee, Hon. J Mpsi, tabled the Committee's Oversight Report on the Division of Revenue Bill [B3-2020] Section 76, as follows:



FINANCE PORTFOLIO COMMITTEE

1. OVERSIGHT REPORT ON THE DIVISION OF REVENUE BILL [B3-2020] – SECTION 76

The Chairperson of the Finance Portfolio Committee (Portfolio Committee), Mr. J. Mpisi tabled a report on the Division of Revenue Bill [B3-2020] (*the Bill*).

1.1 INTRODUCTION

The Division of Revenue Bill [B3-2020] was tabled by the Minister of Finance in the National Assembly on 26 February 2020. After its tabling, South Africa's credit rating was cut below investment grade, delivering the country a full house of junk assessments as it grapples with a nationwide lockdown to curb the spread of the novel coronavirus. The move reflects continuing deterioration in fiscal strength and structurally very weak economic growth. South Africa's vulnerable economic growth is constrained by unreliable electricity supply, financially unsustainable state-owned enterprises, persistent weak business confidence and investment as well as long-standing structural labour market rigidities.

The consideration of the tabled Division of Revenue Bill [B3-2020] is to allow for the adjustment budget announced by the President to respond to the COVID-19 pandemic. However, disaster provisions in the 2019 Division of Revenue Act has been activated, resulting in the transfer of R466 million to provincial health departments for the procurement of personal protective equipment. Reallocations in terms of section 20(6) for the reprioritization of existing grants towards disaster alleviation. Furthermore, R306 million in the indirect Regional Bulk Infrastructure Grant was reallocated for interim water supply measures; uncommitted 2019/20 Urban Settlements Development Grant funds have been reallocated to allow cities to fund increased services in informal settlements and vulnerable communities; and R1.5 billion in 2019/20 Municipal Infrastructure Grant are directed to urgent water supply projects.

Bill is introduced in terms of section 76 of the Constitution of the Republic of South Africa, 1996 ("the Constitution") and it is widely referred to as a section 76 Bill.

The Bill is introduced annually to give effect to Section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1990 ("IGFRA"). The Bill provides for the equitable

division of revenue anticipated to be raised nationally among the national, provincial and local spheres of government for the 2020/21 financial year.

The total revenue raised and to be shared amongst the three spheres of government, amounts to R1 765 994 000 000 in 2020/21, increasing to R1 850 668 000 000 in 2021/22 and R1 940 225 000 000 in 2022/23 financial years respectively. It is worth noting that Gauteng Province receives total national transfers of R136 053 000 000 comprising of R112 118 000 000 in equitable share and R23 935 000 000 in conditional grants for the 2020/21 financial year.

1.2 PROCESS FOLLOWED

The Speaker of the Gauteng Provincial Legislature formally referred the Bill to the Finance Portfolio Committee (“Portfolio Committee”) for consideration in terms of Gauteng Provincial Legislature Standing Rule 245(1) read with 247 (1) and 248.

On Friday, 08 May 2020, the Portfolio Committee received a briefing on the Bill from the NCOP permanent delegate, Hon. Dennis Ryder, supported by officials from National Treasury.

As required by the Standing Rules of the Gauteng Provincial Legislature, the Portfolio Committee invited public submission on the Bill.

On Friday, 15 May 2020, the Committee deliberated on the Bill. After deliberations, the Committee adopted its report on the Bill to be tabled at the NCOP plenary.

On Wednesday, 20 May 2020, the Portfolio Committee received minutes from the Select Committee of Appropriations on the Negotiating Mandate, which confirmed that there were no amendments to the Bill and all provinces voted in favour of the Bill except the Western Cape province, which abstained. On Friday, 22 May 2020, the Portfolio Committee deliberated and adopted a report on the Final Mandate of the Division of Revenue Bill.

1.3 PRINCIPLE AND DETAIL OF THE BILL AND THE GOVERNMENT’S POLICY PRIORITIES FOR THE 2020/21 MTEF

To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2020/21 financial year; the determination of each province’s equitable share; allocations to provinces, local government and municipalities from national government’s equitable share; the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith.

The allocations to the three spheres of government for the 2020/21 financial year and MTEF are informed by national interest encapsulated in government priorities that benefit the nation. These priorities are outlined in the National Development Plan, which sets out the country’s long-term development trajectory. Complemented by the strategic integrated projects overseen by the Presidential Infrastructure Coordinating Council and the 7 priority outcomes adopted by Cabinet in 2019-2024 Medium Term Strategic Framework (MTSF).

In addition, the Division of Revenue for the 2020/21 financial year is mainly in line with the recommendations made by the Financial and Fiscal Commission (“FFC”), which is mandated by

Section 220 of the Constitution to provide information to all organs of state in order to make informed decisions about complex fiscal matters. The FFC consults on these matters with all the three spheres of government.

1.4 CONSTITUTIONAL AND STATUTORY FRAMEWORK

Section 214 of the Constitution requires that an Act of Parliament must provide for:

- The equitable division of revenue raised nationally among national, Provincial and local spheres of government;
- The determination of each province's equitable share of the provincial share of that revenue; and
- Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and for any conditions on which those allocations may be made.

Furthermore, section 7(3) of the Money Bills Amendment Procedure and Related Matters Act, 2009, requires the introduction of the Division of Revenue Bill be at the same time as the Appropriation Bill is introduced.

The Intergovernmental Fiscal Relations Act 97 Of 1997 sets out the process for the division of nationally raised revenues between the three spheres of government. It establishes the Budget Forum, in which local government issues are discussed as part of the national budget process. It also requires that a Division of Revenue Bill is tabled annually, setting out (among other things) the amounts to be transferred to each municipality.

The Bill seeks to amongst others, give effect to the provisions of Section 214 of the Constitution. These include national interest and the division of resources, provision for debt costs, national government's needs and interests, provincial and local government basic services, fiscal capacity and efficiency, developmental needs, economic disparities, obligations of terms of national legislation, predictability and stability, and of importance, flexibility in responding to disasters. **The Portfolio Committee noted that the bill is in alignment with the Constitution, Money Bills Amendment Procedure and Related Matters Act, read with Intergovernmental Fiscal Relations Act.**

1.5 OUTCOME OF THE NEGOTIATING PROCESS

The Committee mandated Hon. Ryder to table the negotiating in favour of the Bill, with the following recommendations:

- 1.5.1 That National Treasury should maintain a delicate balance between government debt as a percentage of the GDP and fiscal policy targets without compromising service delivery;

- 1.5.2 That National Treasury should ensure that conditional grants keep pace with the population growth if service delivery is not to be compromised;
- 1.5.3 The National Treasury resolves the inaccurate assumptions about the ability of local government to raise own revenue together with a rapidly increasing cost base, where the equitable share is currently much too low to compensate for the funding gap; and
- 1.5.4 That National Treasury should consider reviewing the current funding model for local government, based on the current fiscal reality of local government.

National Treasury responded to all Committee's recommendations.

1.6 OPINION OF THE PROVINCIAL EXECUTIVE COUNCIL ON THE BILL

The Portfolio Committee noted that National Treasury consulted widely on the Division of Revenue Bill by circulating the draft Bill. The Gauteng Provincial Treasury on behalf of the Provincial Executive Council is satisfied that the 2020 Division of Revenue Bill has adequately responded to government's priorities over the 2020 MTEF period, despite the reduction in the baselines of the fiscal framework.

1.7 SOCIO-ECONOMIC IMPACT

The Bill would uplift the standard of living across the province in many ways if passed and implemented as it is. The personal income tax reliefs announced in the budget in response to the economic challenges, will improve household consumption in Gauteng Province. Despite the decrease in equitable share and conditional grants. **It is noteworthy that transfers to fund operational costs of social services in provinces and free basic services in municipalities have been protected in real, per capita terms.**

With the division of revenue, government continues to invest in economic infrastructure such as roads and social infrastructure such as schools, hospitals and clinics to stimulate economic development, create jobs and address economic and social disparities.

1.8 FINANCIAL IMPLICATIONS OF THE BILL

South Africa requires faster economic growth rates, in order to raise the requisite revenue needed to fund the country's socio-economic development agenda. Without sustainable public finances, revenue will continue to pay interest on debt, which absorbs 15 cents of every 1 rand collected in taxes. Furthermore, without financially viable state-owned enterprises, taxpayers will continuously bail them out.

Over the past year, economic growth has been weaker than predicted and it is only expected to reach 0.9% in 2020. Power outages has put the economy under tremendous pressure and so are the demands from Eskom and other financially distressed state-owned enterprises draining public resources. In 2019/20 FY, revenue collected is expected to be R63.3 billion lower than forecasted. By 2022/23 FY, gross government debt is expected to rise to 71.6% of GDP.

In addressing this difficult situation, two complementary approaches are required, that is, determining action to reverse the deterioration of the public finances by narrowing the budget deficit and containing debt, and structural reforms to return the economy to faster, sustainable growth. It is against this backdrop that the 2020 budget priority is to achieve fiscal consolidation by narrowing the budget deficit to stabilize the national debt-to-GDP ratio; moderating spending as a share of GDP; and reducing the wage bill as a share of overall spending.

To this end, reductions to previously announced spending levels were made across all spheres of government to fit within the revised expenditure ceiling. The provincial equitable share has been reduced by R7.3 billion through a 2% reduction in all non-compensation spending per year and a R5.2 billion reduction in compensation of employees. The local government equitable share allocation has also been reduced by R3.2 billion in unallocated funds earmarked for higher bulk cost increases. Despite the reductions, considering the impact of inflation and population growth, the equitable share remains stable for the past decade and the changes are inconsequential. **The Portfolio Committee noted with appreciation that transfers to fund operational costs of social services in provinces and free basic services in municipalities have been protected in real, per capita terms.**

Similarly, direct conditional grants have been reduced by R13.3 billion, as a reduction of R16.2 billion partly offset by the reprioritizations of R2.9 billion. Like the provincial equitable share, the conditional grants funds are still in line with allocations over the last decade after taking into consideration inflation. **However, the Portfolio Committee noted that contrary to the equitable share, the growth of conditional grants is not keeping pace with the population growth.** To manage the impact of reductions, the reductions considered past spending and performance, whether it funds salaries, medicines and food, and whether there has been any significant real growth in allocations in the recent years. Larger reductions were also effected to grants to urban municipalities, which could be offset by their revenue investments.

Excluding the debt-service costs and the contingency reserves, the total revenue raised and to be allocated between the three spheres of government, amounts to R1 531 724 000 in the 2020/21 FY, increasing to R1 587 186 000 in the 2021/22 FY and R1 645 080 000 in the 2022/23 FY. Of these amounts 48.2% of nationally raised funds are allocated to national government, 43% to provinces and 8.8% to local government. **Of importance, the Portfolio Committee noted that these allocations take into consideration government's spending priorities, each sphere's revenue raising capacity and responsibilities, and input from various intergovernmental forums and the recommendations of the FFC.**

Table 1: Total Transfers to provinces, 2020/21

R million	Equitable Share	Conditional Grants	Total Transfers
Eastern Cape	71 415	12 488	83 903
Free State	30 107	8 239	38 256
Gauteng	112 118	23 935	136 058
Kwa-Zulu Natal	111 442	22 011	133 453
Limpopo	62 329	9 890	72 219
Mpumalanga	44 105	8 312	52 417
Northern Cape	14 290	4 542	18 832
North West	37 548	7 743	45 291

Western Cape	55 208	13 161	68 398
Unallocated	-	433	433
Total	538 472	110 785	649 256

Source: National Treasury

Table 1 above is a graphical representation of total transfers to provinces for the 2020/20 financial year. Gauteng Province receives R112 118 000 000 from the equitable share allocation and R23 935 000 000 for conditional grants in 2020/21 financial year which amounts to R136 058 000 000. **The Portfolio Committee noted with appreciation that provincial equitable share grows faster than conditional grants over the MTEF, thereby giving provinces greater flexibility in budgeting for their priorities.** The equitable share grows at 6.3%, while conditional grants grow at 4.7% over the MTEF period.

These allocations take into consideration key trends in equitable share data updates like, education component, health component, basic share component, poverty component, economic activity component and institutional component. For the education and poverty components, Kwazulu-Natal receives the highest allocation of 21.6% and 21.8% followed by Gauteng at 19.4% and 18.7% respectively. Gauteng ranks highest on the health component share, basic share component, and the economic activity share at 24%, 25.8% and 34.3% respectively. **Of importance, the provincial equitable share for the Gauteng province is the fastest growing at 8.2% above the national average annual growth and the inflation. The Portfolio Committee welcomes the development as it signifies that Gauteng province is compensated for in-migration.**

The Portfolio Committee noted with appreciation that the provincial equitable share formula continues to be reviewed in collaboration with provincial treasuries and the FFC (and taking account of recommendations from parliament and provincial legislatures and inputs from stakeholders, including NGOs) to reflect changes in demand for services. To this effect, the review of the formula for the 2020 MTEF has involved the updating of information on the education, health, basic share, poverty, economic components and the cost of rural services with the new data. **The Portfolio Committee welcomes the utilization of new data, contrary to the outdated 2011 Census data, as that will help limit the shocks of updating the sub-component after the lag between Census updates and will ensure the optimal resourcing of provinces.**

Of note, the equitable share and infrastructure grant formulas redistribute funds towards poorer provinces and municipalities. **The Portfolio Committee noted with appreciation that through the division of revenue, government continues to invest in economic infrastructure such as roads and social infrastructure such as schools, hospitals and clinics to stimulate economic development, create jobs and address economic and social disparities.** To illustrate this point, per capita revenues from personal income tax are three times higher in Gauteng than in the Eastern Cape. However, transfers per capita to the Eastern Cape are about 40% higher than to Gauteng.

For the 2020 MTEF, in addition to the revised provincial equitable share formula, three new adjustments are allocated. In the social development sector, R398 million has been reprioritised from national government to provinces for the employment of social workers in areas with high prevalence of gender-based violence, substance abuse and issues affecting children (of this

amount Gauteng receives R59.7 million). Moreover, R315 million has been reprioritised from the Department of Social Development to provinces to help non-profit organizations in implementing social behaviour change programmes (of this amount Gauteng receives R22.7 million). To scale up the Sanitary Dignity Programme, R652 million has been added to the provincial equitable share over the MTEF to provide sanitary products to indigent girl learners (of this amount Gauteng receives R79.9 million).

1.9 FINAL POSITION ADOPTED BY COMMITTEE

After due consideration, the Finance Portfolio Committee in accordance with Rule 163 read with Rule 164, adopted the report in support of the Division of Revenue Bill [B3-2020] Section 76, as referred and recommends its adoption by the House.

1.10 ACKNOWLEDGEMENTS

The Portfolio Committee extends gratitude to the Honourable MEC N. Nkomo Ralehoko, the Head of Department Ms. S. Tshabalala and officials of the Gauteng Provincial Treasury for their cooperation during the processing of the Bill.

Thanks and appreciation to all Members of the Finance Portfolio Committee, Mr. P. Malema; Dr. M.R. Phaladi-Digamela; Mr. W. Matsheke, Mr. M. Moriarty; Ms. A. Randall; I. Cilliers; Mr K.C. Mazwi; and Ms. B. Badenhorst. Special gratitude goes to Gauteng Permanent Delegate at the National Council of Provinces, Member D. Ryder and National Treasury Officials led by Mr. Steven Kenyon for their support.

The Committee's gratitude is also extended to the following support staff: Group Committee Coordinator Mr. T Bodibe; Senior Committee Coordinators Mr. J. Ntsane and Ms. M. Mojapelo, Researchers Mr. M. Tshehla and Ms. L. Chiloane; Senior Information Officer Mr. W. Nsibande; Media Officer Mr. A. Dikola; Committee Administrators Ms. C. De Beer and Mr. Z. Mabuza, Service Officer Ms. R. Msimanga, Catering Assistant Ms. E. Nthene and Hansard Recorder Ms. R. Singh.