Tuesday, 21 July 2020]

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OF THE

REPUBLIC OF SOUTH AFRICA

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

TUESDAY, 21 JULY 2020

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ANNOUNCEMENTS

National Assembly and National Council of Provinces

The Speaker and the Chairperson

1. Assent by President in respect of Bills

(1) **Border Management Authority Bill** [B 9D – 2016] – Act No 2 of 2020 (assented to and signed by President on 16 July 2020).
(Molao wa Bothati jwa Taolo ya Melelwane (Setswana)).

2. Classification of Bills by Joint Tagging Mechanism (JTM)

(1) The JTM in terms of Joint Rule 160(6) classified the following Bill as a section 76 Bill:

(a) **Public Finance Management Amendment Bill** [B 13 – 2020] (National Assembly – sec 76).

3. Draft Bills submitted in terms of Joint Rule 159

(1) **Financial Sector Laws Amendment Bill**, 2020, submitted by the Minister of Finance.

Referred to the **Standing Committee on Finance** and the **Select Committee on Finance** for information.

National Assembly

The Speaker

1. Introduction of Bills

(1) **The Minister of Employment and Labour**

(a) **Employment Equity Amendment Bill** [B 14 - 2020] (National Assembly – proposed sec 75) [Explanatory summary of Bill and prior notice of its introduction published in ***Government Gazette*** No 43535 of 20 July 2020.]

Introduction and referral to the **Portfolio Committee on Employment and Labour** of the National Assembly, as well as referral to the Joint Tagging Mechanism (JTM) for classification in terms of Joint Rule 160.

In terms of Joint Rule 154 written views on the classification of the Bill may be submitted to the JTM. The Bill may only be classified after the expiry of at least three parliamentary working days since introduction.

2. Referral to Committees of papers tabled

(1) The following papers are referred to the **Joint Standing Committee on the Financial Management of Parliament** for consideration:

(a) The Revised Draft Annual Performance Plan of Parliament for 2020-21 – 2022-23.

(b) Monthly Financial Statements of Parliament – June 2020, tabled in terms of section 54(1) of the Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No 10 of 2009).

(2) The following paper is referred to the **Portfolio Committee on Basic Education** for consideration and report:

(a) Revised Annual Performance Plan for 2020/21 of Umalusi – Council for Quality Assurance in General and Further Education and Training and the Strategic Plan for 2020 – 24.

(3) The following paper is referred to the **Portfolio Committee on Public Service and Administration** for consideration and report:

(a) Revised Annual Performance Plan of The Presidency for 2020-21.

(4) The following paper is referred to the **Portfolio Committee on Women, Youth and Persons with Disabilities** for consideration and report:

(a) Revised Annual Performance Plan of the Commission on Gender Equality for 2020 – 21.

(5) The following papers are referred to the **Portfolio Committee on Justice and Correctional Services** for consideration and report:

(a) Revised Strategic Plan of the Office of the Chief Justice for 2020-21 – 2024-25.

(b) Revised Annual Performance Plan of the Office of the Chief Justice for 2020-21.

(6) The following paper is referred to the **Portfolio Committee on Small Business Development** for consideration and report:

(a) Revised Strategic (Corporate) Plan of the Department of Small Enterprise Finance Agency for 2020 – 25.

(7) The following papers are referred to the **Portfolio Committee on Cooperative Governance and Traditional Affairs** for consideration and report:

(a) Addendum to the Annual Performance Plan of the Department of Cooperative Governance for 2020-21.

(b) Addendum to the Annual Performance Plan of the Municipal Infrastructure Support Agent for 2020-21.

(8) The following papers are referred to the **Portfolio Committee on Defence and Military Veterans** for consideration and report:

(a) Adjusted Strategic Plan of the Department of Defence for 2020-25.

(b) Adjusted Annual Performance Plan of the Department of Defence for 2020.

(c) Adjusted Strategic Plan of the Castle Control Board for 2020-25.

(d) Adjusted Annual Performance Plan of the Castle Control Board for 2020-21.

(e) Adjusted Strategic Plan (Corporate Plan) of the Armscor (Armaments Corporation) for 2020.

(9) The following papers are referred to the **Portfolio Committee on Justice and Correctional Services** for consideration and report:

(a) Revised Strategic Plan of the Department of Justice and Constitutional Development for 2020 – 25.

(b) Revised Annual Performance Plan of the Department of Justice and Constitutional Development for 2020 – 21.

(10) The following paper is referred to the **Portfolio Committee on Women, Youth and Persons with Disabilities** for consideration and report:

(a) Revised Annual Performance Plan of the Department of Women, Youth and Persons with Disabilities for 2020-21.

(11) The following papers are referred to the **Portfolio Committee on Sports, Arts and Culture** for consideration and report:

(a) Addendum to the Annual Performance Plan of the Department of Sports, Arts and Culture for 2020-21.

(b) Annexure to the Strategic Plan of the War Museum of the Boer Republics for 2020-21 – 2024-25.

(c) Annexure to the Annual Performance Plan of the War Museum of the Boer Republics for 2020/2021.

(d) Revised Strategic Plan of the Market Theatre Foundation for 2020-21 – 2024-25.

(e) Revised Annual Performance Plan of the Market Theatre Foundation for 2020 – 21.

(f) Revised Annual Performance Plan of the Pan South African Language Board (PanSALB) for 2020 – 21.

(g) Revised Annual Performance Plan of the Playhouse Company for 2020-21.

(h) Revised Strategic Plan of the National Film and Video Foundation for 2020 – 25.

(i) Revised Annual Performance Plan of the National Film and Video Foundation for 2020-21.

(j) Revised Strategic Plan of the South African Heritage Resources Agency for 2020 – 25.

(k) Revised Annual Performance Plan of the South African Heritage Resources Agency for 2020-21.

(l) Revised Annual Performance Plan of Artscape for 2020-21.

(m) Annexure to the Strategic Plan of the South African State Theatre for 2020 – 25.

(n) Annexure to the Annual Performance Plan of the South African State Theatre for 2020 – 21.

(o) Strategic Framework for the Medium Term of the National Heritage Council for 2020-21 – 2024-25.

(p) Revised Annual Performance Plan of the National Heritage Council for 2020 – 21.

(q) Amended Annual Performance Plan of the Performing Arts Centre of the Free State for 2020 – 21.

(r) Strategic Plan of the Robben Island Museum for 2020 – 25.

(s) Revised Annual Performance Plan of the Robben Island Museum for 2020 – 21.

(t) Revised Annual Performance Plan of the Afrikaanse Taal-Museum and Monument for 2020-21.

(u) Revised Strategic Plan of the Freedom Park for 2020-25.

(v) Revised Annual Performance Plan of the Freedom Park for 2020/2021.

(w) Revised Annual Performance Plan of the KwaZulu-Natal Museum for 2020-21 – 2022-23.

(x) Annexures to the Strategic Plan of the National Arts Council for 2020 – 25 and the Annual Performance Plan of the National Arts Council for 2020-21.

(y) Revised Annual Performance Plan of the National Museum – Bloemfontein for 2020 – 21.

(z) Revised Strategic Plan of the uMsunduzi/Voortrekker and Ncome Museums for 2020-25.

(aa) Revised Annual Performance Plan of the uMsunduzi/Voortrekker and Ncome Museums for 2020-21.

(bb) Adjusted Strategic Plan of the National Library of South Africa for 2020-25.

(cc) Adjusted Annual Performance Plan of the National Library of South Africa for 2020-21.

(dd) Revised Annual Performance Plan of the William Humphreys Art Gallery for 2020-21.

(ee) Revised Annual Performance Plan of Amazwi South African Museum of Literature for 2020-21.

(ff) Revised Strategic Plan of the Iziko Museums of South Africa for 2020 – 25.

(gg) Revised Annual Performance Plan of the Iziko Museums of South Africa for 2020 – 21.

(hh) Revised Annual Performance Plan of the Nelson Mandela Museum for 2020 – 21.

(ii) Addendum to the Annual Performance Plan of Boxing South Africa for 2020-21.

(12) The following paper is referred to the **Portfolio Committee on Transport** for consideration and report:

(a) Revised Annual Performance Plan of the Department of Transport for 2020-21.

(13) The following papers are referred to the **Standing Committee on Finance** for consideration and report. Financial statements are referred to the **Standing Committee on Public Accounts** for consideration:

(a) Report and Financial Statements of the South African Reserve Bank's Prudential Authority for 2019-20, tabled in terms of section 55(1)(*c*) of the Financial Sector Regulation Act, 2017 (Act No 9 of 2017).

TABLINGS

National Assembly and National Council of Provinces

1. The Minister of Basic Education

(a) Annexure to the Strategic Plan for 2020/21 – 2024/25 and Annual Performance Plan for 2020/21 of the Department of Basic Education, including the Technical Indicator Descriptions.

2. The Minister of Health

(a) Revised Annual Performance Plan of the National Department of Health for 2020/21.

COMMITTEE REPORTS

National Council of Provinces

1. REPORT OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, SMALL BUSINESS DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR ON THE ADJUSTED BUDGET VOTE 36: SMALL BUSINESS DEVELOPMENT, AND ON SMALL ENTERPRISE FINANCE AGENCY AND SMALL ENTERPRISE DEVELOPMENT AGENCY, DATED 21 JULY 2020

1. Background

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour* having considered the 2020/21 *Supplementary Adjustments Budget of the Department of Small Business Development* jointly with the Portfolio Committee on Small Business Development, on a meeting held virtually on 15 July 2020, reports as follows:

2. Introduction

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and the revised *2020/21 APP of Budget Vote 36: Department of Small Business Development.* The Committee held a joint meeting with the Portfolio Committee on Small Business Development on the 15 July 2020, to engage the Department on its revised spending plan priorities. This engagement follows the tabling of the *Supplementary Adjustments Budget* by the *Minister of Finance* on the 24 June 2020.

Various reports from organisations such as the World Bank, OECD, South Africa Reserve Bank including South Africa National Treasury indicate that South Africa entered the COVID-phase after 10 years the country's economy has grown below its potential. Gross government debt has continued to rise as a result of weak economic growth, high levels of expenditure and repeated funding support to state owned companies. It was further reported that the rating downgrades would increase the cost of government borrowing. The currency weakness remains a concern.

Unemployment, inequality and poverty are the country's major risk with the potential to create social instability. Low business sentiment, policy uncertainty around land reform and low investment are cited by some of the global development contributors to the low growth rate of the economy.

The Committee expressed that for the country's growth and jobs' objectives, would require growth and expansion of small enterprises including Cooperatives. Further both domestic and international investment would be highly needed to avert the current economic and health crisis exacerbated by the *COVID-19 pandemic*.

The Committee highlighted that for the country to attract investment it should build solid investment environment to '*Ease of Doing Business',* and improve production capacity and capability. Both public and private sector financing to SMMEs should be a top priority in order to reset the economy.

The Committee noted government interventions including private sector measures adopted to support SMMEs. The Reserve Bank has reduced the repurchase rate to 3.75 per cent providing relief to indebted households and businesses; banks have provided R30 billion supporting customers to ease the impact of the COVID-19. In addition, the government has undertaken to spend R500 billion fiscal relief package to provide significant support to households and businesses.

The Committee recognise many challenges faced by SMMEs and Cooperatives such as lack access to finance, managerial skills, inadequate infrastructure support, and regulatory burden. The COVID-19 has weakened deeper the SMMEs. Hence, the Committee emphasised that government in partnership with development finance institutions including other financial institutions such as commercial banks should focus on saving existing productive and commercial capabilities of SMMEs and Cooperatives. Including saving the current jobs.

The Committee recognised the depth of the crisis presented by the COVID-19 pandemic in relation to the operations of SMMEs, and the deeper problem of the unemployment that would have to be tackled. The Committee emphasised that preservation of jobs, and support to many businesses should be at the centre of government agenda. Financing of SMMEs and Cooperatives in response to COVID-19 should have a broader focus, whilst also attempting to address historical injustices.

The Committee noted in the *2020/21 Main Budget Report* that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the *COVID-19* pandemic. Further, the Committee recognised that the *COVID-19* had an effect to the departmental spending plan priorities. According to the *2020/21 Supplementary Budget Review,* the overall adjustments to the spending plans of government departments was guided by:

- Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
- Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
- Suspending allocations to programmes with a history of poor performance and/or slow spending;
- Redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package;

Over the medium term period, a significant feature of the spending plans would respond more appropriately to *COVID-19* interventions, given its enormous impact on SMMEs and Cooperatives. Growth need to be inclusive. So over the medium term government is set to also focus on channeling resources lift rural and township economies. This is one of the policy areas that the Committee will focus on, over the medium term.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R R67 million in funds initially appropriated to the Department. In the *2020 Main Budget* the Department was approximately appropriated R2,4 billion. However, the Department as a policy response to the COVID-19 has established *COVID 19 Emergency Fund* with the aim to support SMMEs, the fund is administered by the *State Enterprise Finance Agency* (SEFA). In the Supplementary Budget, the *COVID 19 Emergency Fund* anticipated to disburse approximately R1.15 billion to small enterprise to minimise the impact of the *COVID-19* to businesses' operations.

3. Impact of COVID-19 on Departmental Spending

The aim of the Department is to promote the development of small business that contributes towards an all-inclusive economic development and growth. Further it is stated that the Department is tasked with the responsibility of leading an integrated approach to the promotion and development of small business and cooperatives by focussing on economic and legislative drivers that stimulate entrepreneurship to contribute towards radical economic transformation. It expected that the realisation of this mandate will lead to increased employment, poverty reduction and reduce inequality.

The core functional policy priorities of the Department are constituted around crucial policy functional areas namely; *Functional Policy Programme 2: Sector Policy and Research, Functional Policy Programme 3*: *Integrated Cooperative Development, Functional Policy Programme 3*: *Integrated Cooperative Development. Programme 1: Administration* is primary providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

As the result of changes necessitated by the COVID-19, the Department revised the spending plan priorities to meet the new demand. The spending priorities are framed as follows:

- Develop and introduce the COVID-19 pandemic outbreak intervention measures dedicated towards assisting informal and micro businesses;
- Finalise and implement the Township Entrepreneurship Fund;
- Support government effort to ease business environment to SMMEs and Co-operatives to operate, and further promote sustainability and growth of SMMEs and Co-operatives by designing and implementing Business Viability Facility;
- Finalise amendments to the *National Small Enterprise Act* to deal mainly with the establishment of the *SME Ombuds Office*, regulations/licensing of businesses owned by foreign nationals and unfair business to business practices;
- Finalise and implement the localisation programme on SMMEs and Co-operatives;
- Sustain SMMEs and Co-operatives by linking them to markets through e-commerce platform
- Re-align the budget structure with overall organisational structure, and planning documents;

- Finance the business case for the new single *Small Business Support Entity*, that will involve a merger of the *State Enterprise Development Agency* (SEDA), *State Enterprise Finance Agency* (SEFA) and the *National Empowerment Fund* (NEF).

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the COVID-19 pandemic. Further, resources were also shifted towards government policy objective to stabilise public finances.

Table 1: Summary of Revised Budget: Small Business Development

R thousand	2020/21 Main Budget	Downward revisions			Reallocations			2020/21 Total Net Change Proposed	2020/21 Total Allocation
		Suspension of Funds (COVID-	Virements (of Funds from	Virements From (Other)	Allocated to COVID-19 Purposes	Virements of Funds to COVID-19	Virements to (Other)		
Programmes									
Administration	129 066	-6 400	–	–	–	–	–	-6 400	122 666
Sector Policy and Research	28 044	-8 100	–	–	–	–	–	-8 100	19 944
Integrated Cooperative Development	140 000	-16 500	-13 500	–	–	–	–	-30 000	110 000
Enterprise Development and Entrepreneurship	2 109 673	-36 000	-1 141 000	–	–	1 154 500	–	-22 500	2 087 173
Total	**2 406 783**	**-67 000**	**-1 154 500**	**–**	**–**	**1 154 500**	**–**	**-67 000**	**2 339 783**
Economic classification									
Current payments	**251 412**	**-28 000**	**–**	**–**	**–**	**–**	**–**	**-28 000**	**223 412**
Compensation of employees	162 317	–	–	–	–	–	–	–	162 317
Goods and services	89 095	-28 000	–	–	–	–	–	-28 000	61 095
Transfers and subsidies	**2 151 096**	**-39 000**	**-1 154 500**	**–**	**–**	**1 154 500**	**–**	**-39 000**	**2 112 096**
Departmental agencies and accounts	889 140	–	-30 000	–	–	–	–	-30 000	859 140
Public corporations and private enterprises	1 261 956	-39 000	-1 124 500	–	–	1 154 500	–	-9 000	1 252 956
Payments for capital assets	**4 275**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4 275**
Machinery and equipment	4 275	–	–	–	–	–	–	–	4 275
Payments for financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2 406 783**	**-67 000**	**-1 154 500**	**–**	**–**	**1 154 500**	**–**	**-67 000**	**2 339 783**

Source: National Treasury, Supplementary Budget, 2020

In the current financial year, the Department as part of the government wide downward revision exercise on spending plan priorities is expected to forgo R67 million. Of which in terms of economic composition, the Department is anticipated to forgo R28 million on *Goods and*

Services, R39 million on *Transfers and Subsidies*. The Functional Policy Programmes, Programme 1: *Functional Policy Programmes 1: Administration* is expected to forgo R6,4 million, of which all of it was derived from *Goods and Services.*

The policy area in relation with *Sector Policy and Research* is anticipated to forgo R8,1 million, all the funds were derived from *Goods and Services* spending item. In the current financial year, the Department will develop the *Localisation Programme on SMMEs and Co-operatives* to support growth and development of SMMEs and Cooperatives.

With regard to the *Functional Policy Programme 3*: *Integrated Cooperative Development,* the Department is expected to forgo R30 million, of which R6,5 million is on *Goods and Services*, and R23,5 million is on *Transfers and Subsidies*. The funds were initially budgeted to be allocated as part of the *Cooperatives Incentive Schemes* directed to private institutions.

In relation with the policy area on *Enterprise Development and Entrepreneurship*, the Department is expected to forgo R22,5 million, of which R7 million is on *Goods and Services*, R15,5 million is on *Transfer and Subsidies.* However, the Department was re-allocated R1,15 billion as policy response to COVID-19 pandemic.

The funds were originated within the funds directed for *Transfers and Subsidies* spending item. The affected programmes were: *National Gazelles Programme (*R30 million), which is administered by the *State Enterprise Development Agency*-SEDA, R270 million from the *Black Business Supplier Development Programme*, R70 million from *National Informal Business Upliftment Scheme* and R800 million from the *Township Entrepreneurship Fund* administered by the *State Enterprise Finance Agency*-SEFA.

As already stated elsewhere in this report, the R1,15 billion originated funds will be used to support small enterprises as a policy response to the *COVID-19*. The funds contribute to the government efforts to saving existing productive and commercial capabilities of SMMEs and Cooperatives. Including saving the current jobs.

In partnership with its entities-SEDA and SEFA, the Department will implement as the policy response to COVID-19 the *SMME Debt Relief Fund, Business Growth and Resilience Facility* to support SMMEs to navigate the current uncertain situation. Further, SEFA has also offered payment holidays to its clients, amounting to R R170.6 million. The interventions also cover township and rural enterprises. The Department submitted that it is working on post-lockdown interventions to ensure that businesses are assisted to upgrade their business processes and get appropriate financial support to operate in a 'new normal operating environment'.

Over a 5-year period, the Department through SEFA is expecting to disburse approximately R9,7 billion to SMMEs and Cooperatives. Financing 812,183 SMMEs and Cooperatives, and creating close to 1 million jobs. In the current financial year, approximately R2 billion is expected to be allocated to SMMEs and Cooperatives, which will finance close to 106 883 SMMEs and Cooperatives and creating close to 164 210 jobs.

Over the medium term, the Department submitted that its resources partnering with its development finance agencies will also respond to the need to recalibrate rural and township economies. However, the Committee noted that various reports state that public business support programmes are relatively fragmented, and do not appear to have a significant impact on creating new small businesses including Cooperatives. This is the issue that the Department needs to tackle. Further, in the recent past report of the Financial and Fiscal Commission flagged the utilisation of financial intermediaries (wholesale lending) as one of the cost drivers that increasing the cost of capital for struggling small enterprises.

4. Issues Arising from Committee deliberations

1. The Committee noted that the slow-down of economic activities exacerbated by the COVID-19 pandemic would have an effect on public and private financing. SMMEs, and Cooperatives would be hit hardest. Jobs of many South African will disappear, particular the vulnerable category made up of women, youth, disabled, rural communities.
2. The Department and its agencies stressed that over the medium term, their programmes have also have focus on the vulnerable people. Resources will also be channelled to boost township and rural economies.
3. Further, the Department indicated that funds, and non-financial support programmes will pay particular attention to the informal sector. It has a programme to formalising

the informal business sector. This is one of the policy areas that the Committee highlighted as pivotal to ensure that the economy becomes more inclusive.

4. The Committee also pointed out that there is a need for the Department and its agencies to align their functional activities with other departments, in this case with the *Department of Employment and Labour* to support growth and expansion of the *Supported Employment Enterprises* (SEE). Growth and expansion of the SEEs is an essential contribution to social cohesion.
5. Some of the Members raised concerns about the negative effects of the ban of alcohol to the liquor industry. The Committee agreed that a balance approach on health and economic considerations should be found, however the more anything else the current crisis is the health crisis. Lives must be prioritised. The ban of alcohol is seen as the temporary measure to ease the burden on hospitalisation, and to ensure resources are directed as much as possible to fight *COVID-19 pandemic*.
6. The Department indicated that evidence at the disposal of government shows that since the start of Level 3 restrictions as part of the *Government Risk Adjustment Strategy* to manage the *COVID-19* pandemic and opening the economy, trauma units in hospitals were burdened with cases related to alcohol consumption.
7. Further the Department stressed that government interest is to see as many businesses operating, and the economy activities resuming in many industries to reset the economy, and boost jobs.
8. The Committee emphasised that the *COVID policy responses* should focus on respond more appropriately to *COVID-19* interventions, given its enormous impact on the economy and employment. The focus must ensure that many businesses are preserved, and the current productive capacity is not eroded, and jobs are protected. Further, the Committee emphasised the importance of the *Broad-Based Black Economic Empowerment (B-BBEE) initiative's contribution to an inclusive growth agenda.*
9. The Department indicated that government will strengthen partnership formed with the private sector to scale up support to SMMEs and Cooperatives. Further, development finance institutions would play a crucial role. Funding will be extended to rural and township communities.
10. Further, commercial banks would be engaged to ensure that businesses are supported.
11. Further, the Department emphasised that government official will be fully held accountable for their inaction or commission. Performance management measures will be implemented across departmental divisions, including its agencies.

12. The Committee urged the Department to ensure that its services reach as many people particular rural communities. Many businesses complain about inadequate communication and marketing of services that the department and its agencies are offering.
13. The high cost of capital experienced by many SMMEs and Cooperatives should be addressed prioritised, the Committee emphasised. This is not expected from development finance institutions such as SEFA.
14. Further, the Committee urged the Department to leverage private sector finance to improve the impact of the business development support programme to ensure that small businesses contribute towards the economy, and job creation. The Committee called for stronger measuring tools to evaluate performance of SMMEs.
15. The role of sub-national governments in providing business development support to SMMEs including Cooperatives including informal businesses was emphasised, with particular emphasis on municipalities.

5. Recommendations

The Committee observes that the slowdown in economic activity has had a significant impact on both public and private sector finances. Development partnership initiatives would be pivotal to tackled the challenges faced by SMMEs and Cooperatives. Financing and funding would be required in both the public and private sectors to reset the economy, and boost jobs.

Given the huge impact of *COVID-19* on the economy, businesses and jobs, the *COVID-19 policy responses* should take into cognisance that the focus is to ensure that many businesses are preserved, and the current productive capacity is not eroded, and jobs are protected. This does not mean that the Broad-Based Black Economic Empowerment (B-BBEE) initiative's contribution to an inclusive growth agenda becomes less important.

Following the engagements with the Department, the Committee proposed the following recommendations to the Minister:

1 The *COVID-19* pandemic would certainly put pressure on the current departmental budget. The uncertainty caused by the pandemic would require focused support to SMMEs and Cooperatives. Over the 2021 medium term, both financial and non-financial support to the small businesses would be required. The Committee urged the Department to engage National Treasury to consider allocating additional resources in order the Department to upscale policy responses necessitated by the COVID-19 pandemic. This recommendation takes into cognisance the current public finance position.
2 The Department over the current medium term, should finalise the *Small Enterprise Master Plan* including the *Small Enterprise Amendment Bill*.
3 In preparation for the 2021 medium term, the Department must finalise the macro-organisational structure, and formulate the budget structure that is aligned with the strategic plan. The Department of Public Service and Administration, National Treasury, and the Department of Monitoring and Evaluation should provide support to the Department to develop the macro-organisational structure including the strategic plan in accordance with their legislative and policy mandates.
4 Organisational health and capability should be one of the key priorities that the Department should prioritise. In preparation of the 2021 medium term period, the Department would need to fill critical posts to realise the government, and departmental policy outcomes. This should form part of the broader re-engineering of the Department, and to repurpose the Department to meet the needs of the small enterprise industry.
5 Further, in preparation for the 2021 medium term, the Department must fast track the process of merging SEFA, SEDA and NEF to form a focused, single and coherent *SMME Development Agency.* The merger process of SEDA, SEFA and NEF should be prioritised. The Presidency and National Treasury should provide necessary resources to support the merger of the mentioned development entities.

Report to be considered.

2. REPORT OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, SMALL BUSINESS DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR ON ADJUSTED BUDGET VOTE 31: EMPLOYMENT AND LABOUR, AND THE 2020/21 REVISED ANNUAL PERFORMANCE PLAN OF THE DEPARTMENT OF EMPLOYMENT AND LABOUR, DATED 21 JULY 2020

1. Background

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour (Committee)*, having considered the *Supplementary Adjustments Budget of Vote 31: Employment and Labour*, and the 2020/21 revised *Annual Performance Plan of the Department of Employment and Labour*, reports as follows:

2. Introduction

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and revised *2020/21 Annual Performance Plan of the Department of Employment and Labour:* Vote 31. The Committee engaged the Department on the 9 July 2020. This engagement follows the tabling of the *Supplementary Adjustments Budget* tabled by the Minister of Finance on the 24 June 2020.

When the Committee adopted the *2020/21 Main Budget Report* it noted the impact of *COVID-19* on the national economies, global economy and jobs, and which industries would be significantly ravaged. Further, the Committee noted the resultant effect of the pandemic to the South Africa's economic growth, and the fiscal health of the country. As noted by various government strategy policy documents including reports by global institutions such as IMF, OECD, including South Africa's Central Bank, the country entered the *COVID-19* phase with pre-existing economic and social risk, such as low economic growth, widening budget deficit (current projected to reach close to 15 per cent to GDP). The debt-to-GDP ratio is currently projected to exceed 80 per cent, and the country debt-service-costs will reach 6 per cent of GDP. Further, the country is experiencing low investment confidence, downgraded to low investment grade, huge hole on balance sheet of critical economic state entities such as ESKOM, with SAA facing liquidation. The overall economy is expected to decline by 7 per cent in 2020/21 reporting period.

Unemployment, Inequality and poverty remains a serious risk for government. Young people, and women including people with disabilities are the highest group at risk. The Unemployment Insurance Fund (UIF) over the short term (three months) ending June 2020 has set aside R40 billion for COVID-TERS relief funding, which has so far assisted over six million workers. This is in addition to the funds normally distributed to UIF beneficiaries. *COVID-19* given its uncertainty would present a potential risk to the sustainability of the UIF.

The current health and economic situation has restricted economic activity and that has exacerbated unemployment crisis. Going forward, South Africa would face a little chance to increase employment unless drastic economic reforms are implemented, suggested the *World Bank, South Africa Reserve Bank and National Treasury*.

Further the Committee noted in the 2020/21 Main Budget Report that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the COVID-19 pandemic, and the effect of COVID-19 to the departmental spending plan priorities. According to the 2020/21 *Supplementary Budget Review*, the overall adjustments to the spending plans was guided by:

- Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
- Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
- Suspending allocations to programmes with a history of poor performance and/or slow spending;
- Redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R261 million in funds initially appropriated to the Department. Initial in the 2020 Main Budget the Department was appropriated an amount of R3.6 billion. The Committee noted that the projected increase in unemployment as a result of COVID-19 and resultant national lockdown will greatly increase the demand of the services offered by the Department. It was reported by the Department that there are signs indicating an increase in the number of retrenchment applications and dispute resolutions, and thus signaling an increase to the unemployment.

The Department has indicated that there has been an increase in demand for services for the labour inspectorate since the start of lockdown. Whilst the Department has made savings in respect of subsistence allowances, travel and accommodation, these cost savings need to be measured against costs associated with the new way of working with greater reliance on technology and associated devices to enable people to work from home. In addition, the Department has noted major expenditure in respect of the provision of Personal Protective Equipment (PPE) for officials, sanitizing labour centres and enhancing social distancing protocols. The downgrade of budgetary provision has resulted in the Department to work smarter with fewer resources. Over the medium term, the Department will implement the Sexual Harassment Policy. This is one of the crucial policy priorities.

The Labour Activation Programmes would remain pivotal. Government with the support of the private sector and other development partners should establish integrated employment support programme to limit the damage that the pandemic would cause to jobs, and income of households.

3. Impact of COVID-19 on Departmental Spending

The aim of the Department is to play a significant role in reducing unemployment, poverty and inequality by pursuing the objectives of decent work for all through employment creation and enterprise development. Further, it aims to set the standards and the protection of rights at work, including the facilitation of equal opportunities and social dialogue, and the provision of social protection.

The core functional policy priorities are constituted around crucial policy functional areas namely; *Programme 2: Inspection and Enforcement Services; Programme 3: Public Employment Services and Programme 4: Labour and Industrial Relations. Programme 1: Administration* providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the *COVID-19 pandemic*. Further, resources were also shifted towards government policy objective to stabilise public finances.

Table 1: Summary of Revised 2020 Budget: Employment and Labour

R thousand	2020/21 Main Budget	Downward revisions: Suspension of funds-	Downward revisions: Virements from COVID-	Downward revisions: Virements from (Others)	Reallocations: Allocated for COVID-19 Purposes	Reallocations: Virements (to COVID 19 Purposes)	Reallocations: Virements to (Others)	2020/21 Total net change proposed	2020/21 Total Allocation proposed
Programmes									
Administration	1 011 652	-72 838	–	–	–	–	–	-72 838	938 814
Inspection and Enforcement Services	676 893	-48 444	–	–	–	–	–	-48 444	628 449
Public Employment Services	643 467	-50 508	–	–	–	–	–	-50 508	592 959
Labour Policy and Industrial Relations	1 305 737	-248 969	–	–	158 839	–	–	-90 130	1 215 607
Total	**3 637 749**	**-420 759**	**–**	**–**	**158 839**	**–**	**–**	**-261 920**	**3 375 829**
Economic classification									
Current payments	**2 177 557**	**-192 067**	–	–	–	–	–	**-192 067**	**1 985 490**
Compensation of employees	1 490 476	-96 639	–	–	–	–	–	-96 639	1 393 837
Goods and services	687 081	-95 428	–	–	–	–	–	-95 428	591 653
Transfers and subsidies	**1 391 364**	**-222 350**	–	–	**158 839**	–	–	**-63 511**	**1 327 853**
Provinces and municipalities	707	–	–	–	–	–	–	–	707
Departmental agencies and accounts	1 162 979	-217 621	–	–	157 166	–	–	-60 455	1 102 524
Foreign governments and international organisations	28 095	–	–	–	–	–	–	–	28 095
Non-profit institutions	199 179	-4 729	–	–	1 673	–	–	-3 056	196 123
Households	404	–	–	–	–	–	–	–	404
Payments for capital assets	**68 828**	**-6 342**	–	–	–	–	–	**-6 342**	**62 486**
Buildings and other fixed structures	16 544	-2 978	–	–	–	–	–	-2 978	13 566
Machinery and equipment	52 284	-3 364	–	–	–	–	–	-3 364	48 920
Payments for financial assets	–	–	–	–	–	–	–	–	–
Total	**3 637 749**	**-420 759**	**–**	**–**	**158 839**	**–**	**–**	**-261 920**	**3 375 829**

Source: National Treasury, Supplementary Budget, 2020

Further, Table 1 indicates that as the result of effect of the COVID-19 pandemic, the Department is expected to forgo approximately R264 million. The expected budget cuts are part of the government wide downward revision exercise on spending plans caused by the lockdown effects to the departmental operations budget. The Department is now expected to spend in R3,37 billion in 2020/21 financial year, registering a decline from R3,63 billion. This represents a 7.2 per cent decrease in budget allocations. The departmental spending cuts were across all four functional policy programmes. However, the functional policy area that was most affected is *Public Employment Services* with a reduction of 7.8 per cent. In terms of Compensation for Employees spending item, *Labour Policy and Industrial Relations was most affected recording* 11.4 per cent.

In terms of economic composition, the Department is anticipated to forgo R96,639 million on Compensation of Employees, R95,428 million on Goods and Services, R63,511 million on Transfer and Subsidies. Then with regards on Payments on Capital Assets the Department is expected to forgo R6,342 million.

With regard to *Functional Policy Programmes, Programme 1: Administration* is expected to forgo R72,838 million, of which R5 million is on *Compensation of Employees*, R64,860 million on *Goods and Services*, and R2,97 million is on *Payments on Capital Assets.* The Department reported that the only changes for APP outcomes for Programme 1: Administration will be the addition of one output focussing on outreach initiatives to change behaviour in relation to gender based violence. This will be done by awareness campaigns and the amendment of the departmental Sexual Harassment Policy by 31 March 2021.

Functional Policy Programme 2: Inspection and Enforcement services is anticipated to forgo R48,44 million, which is composed of R40,72 million on *Compensation of Employees* and R7,72 million on *Goods and Services*. The purpose of functional policy area is to realise decent work by regulating non-employment and employment conditions through inspection and enforcement, to achieve compliance with all labour market policies.

The lockdown effect has restricted economic, business and social activities. To this end, the Department submitted that it had to revise downwards service delivery targets. During the first phase of the lockdown many workplaces were either completely closed or operating partially. Further, Labour Courts were also affected as result of COVID-19 restrictions. These factors have necessitated the *Inspection and Enforcement services* to re-focus its priorities in terms of the 2020/21 APP and associated spending items. As the result, the Department has reduced two service delivery targets, namely:

- The number of employers inspected per year to determine compliance with employment law decreases from 220 692 to 188 323;
- Percentage of non-compliant employers received by Statutory Services referred for prosecution within 30 calendar days, decreases from 65 per cent to 50 per cent.

With regard to the *Functional Policy Programme 3*: *Public Employment Services*, which aims to assist companies and workers to adjust to changing labour market conditions. The Department is expected to forgo R50,5 million, of which R40 million is on *Compensation of Employees*, R7,18 million on *Goods and Services*, and R3,32 million is on *Payments on Capital Assets.*

In reviewing of the service delivery targets in relation to the *Public Employment Services*, the Department submitted that it has considered various factors ranging from lack of new employment opportunities due to a depressed economy. The current health and economic crisis is expected to ravage the economy, and erode employment opportunities, many businesses would close down resulting to increase number of retrenchment. Further the Reserve Bank anticipate a contraction in the economy by 7 per cent by the end of 2020/21 reporting year. Further, Statistics South Africa figures show that the economy has shrunk by 2 per cent in in the 1st Quarter of 2020 prior to the impact of COVID-19. In cognisance of these challenges the APP for Programme 3 has reduced the following indicators:

- Number of work and learning opportunities registered decreases from 95 000 to 50 000;
- Number of registered work and learning opportunities filled by registered work seekers per year decreases from 47 500 to 15 000;
- Number of partnerships agreements concluded with various stakeholders' decreases from 30 to 15.

The Committee is concerned with the impact of the COVID-19 to the economy, and jobs. The Committee emphasis that the Department has a responsibility to coordinate government efforts to preserving existing jobs in the short term, working in partnership with industry players, and other development partners such as development finance institutions. Further, COVID-19 effects may require significant reallocation of resources, as industries and firms may not be affected with the same rate. In the long term, government should work tirelessly with the private sector to lessen the impact of COVID-19 to the economy and jobs.

Further, the Committee recorded that COVID-19 presents uncertainty to the economy, extended social relief packages to protect workers' incomes would be required. Training and development would need to be integrated, and the job seekers programme should be scaled-up. Young people, women and people with disabilities should be prioritised. Greater focus on linking job-seekers programme with industries, including identifying regions that are fast recovery, and putting measures to regions that are under severe economic stress. Given the essential role of the *Public Employment Services*, over the medium term additional resource would be needed.

In relation to the *Functional Policy Programme 4: Labour Policy and Industrial Relations' spending is expected to decline by* R90,13 million, of which R10,91 million is on C*ompensation of Employees*, R15,66 million on *Goods and Services*, R63,51 million on *Transfer and Subsidies*, and R37 thousand on *Payments on Capital Assets.*

The functional policy area is contributing to the efforts to realise Government *Priority 2: Economic Transformation and Job Creation* by ensuring that policy environment supported through policy instruments developed and promoted to enhance the implementation of the Employment Equity Act, and other transformative policies.

The spending decline of R63,51 million on *Transfer and Subsidies is composed of R55,45* million which directed for operations of the *Commission for Conciliation, Mediation and Arbitration*. Further, R5 million which was directed for the operations budget of the *National Economic Development and Labour Council,* and include further R5 million which was directed for various civil and labour organisations.

However, it should be indicated that the *Commission for Conciliation, Mediation and Arbitration* was re-allocated R149,743 million. The funds would assist the CCMA to manage an increased caseload due to salary disputes, and increased requests for assistance through the *TERS programme* by companies in distress due to the restrictions on economic activity. The CCMA will also procure personal protective equipment and sanitiser for all its offices. Further, NEDLAC is also expected to be re-allocated R7,4 million to continue to play the essential role in dealing with the issues arising from COVID-19 in terms of social partner engagements. The Non-profit institutions are expected to receive R1,67 million to support their operations.

The Department reported that the service delivery outputs of the *Labour Policy and Industrial Relations* policy area, further contribute Government Priority 6: Social Cohesion and Safer Communities by promoting sound labour relations through extension of collective agreements and registration of labour organisation. The COVID-19 pandemic, has not just affected the economy, by extension has affected employment and labour relations. The Department submitted that the following targets relating to the *Labour Policy and Industrial Relations* policy area, were revised;

- The *2019/2020 Annual Employment Equity* report and *Public Register* would not be published by 30 June 2020, in this current financial year will be published by 30 September 2020;
- The *National Minimum Wage* investigation report, which was planned to be published by 30 June 2020, would now be published by 30 September 2020.

The *National Minimum Wage Commission* and secretariat established in 2019 will be responsible for reviewing, adjusting and monitoring the social and economic impact of the national minimum wage, which is set at R20 per hour.

Table 2 shows the effect of the revision of the budget in terms of provincial allocation. All the provinces show that the effect of COVID-19 on departmental operations budget affected all provinces.

Table 2: Departmental re-allocation of spending per provincial allocation

PROVINCES	MAIN APPROPRIATION	SUSPENSION OF FUNDS	ADJUSTED APPROPRIA TION	%
	R'000	R'000	R'000	%
Eastern Cape	146 102	-14 000	132 102	13.4%
Free State	107370	-8 967	98 403	8.6%
Gauteng	246 792	-14 883	231 909	14.2%
KwaZulu Natal	199 942	-20 199	179 743	19.3%
Limpopo	115 723	-9 093	106 630	8.7%
Mpumalanga	105 941	-7 757	98 184	7.4%
Northern Cape	73 976	-7 159	66 817	6.8%
North West	97 860	-8 389	89 471	8.0%
Western Cape	133 000	-14 249	118 751	13.6%
TOTAL	**1 226 706**	**-104 696**	**1 122 010**	100%

Source: Department of Employment and Labour

4. Issues Arising from Engagement

1. In anticipation of the vast retrenchments caused by *COVID-19* and the resultant high demand for employment and labour related services. Members raised concern in respect to the budget reduction of the *Functional Policy Programme: 3 Public Employment Services including Functional Policy Programme 4: Labour Policy and Industrial Relations.* The budget cuts also affected operations budget of key institutions such as National Economic Development and Labour Council (NEDLAC) and the Commission for Conciliation, Mediation and Arbitration (CCMA).
2. It was reported that though the budget for NEDLAC was reduced by R5 million, it is anticipated that this reduction will not have an impact on the operations as a result of the huge cash savings on spending items such as travelling and accommodation as meeting have migrated to virtual platforms.
3. A major concern that was submitted by the Department was in respect of the suspension of the budget directed to the CCMA, which recorded a 5.6 per cent budget reduction for the CCMA. According to the Department the suspension of the budget has the potential to affect service delivery given the large anticipated retrenchments. Further, a number of companies have already filed applications for retrenchments in terms of *Section 189 of the Labour Relations Act.*
4. The Department reported that it is of the view that the suspended funds related to spending plans of the affected programmes including the CCMA and NEDLAC are expected to be restored in the 2021/22 financial year.
5. The Department acknowledged the challenges experienced in the implementation of the Temporary Employer/employee Relief Scheme (Ters), which was established as a key part of the government's R500 billion economic and social relief package to help firms and workers affected by the lockdown. The Department gave the undertaking that the payment system would be strengthened. Further, *COVID-19* has just disrupted the entire governance processes, and exposed weaknesses in many organisations both public and private. Also the Department submitted that it is working with law enforcement agencies to investigate any transgressions with legislation and policies in administering the Ters.
6. Further, the Department submitted that all the competent claims were paid, and any outstanding competent claims would be paid. Despite the challenges including criminal

investigations that are underway, the Department re-affirmed its commitment to pay-out the R40 billion set aside to support firms and workers affected by the lock-down.

7. The Committee noted the challenges, and progress made in respect of Ters implementation, and further noted that funding of Ters remains a risk the duration of the pandemic remains uncertain, and going forward its impact to the economy and jobs appears to be huge.
8. The Committee noted that the capacity and capability of the Supported Employment Enterprises (SEE's) should be prioritised in order that it can be able to maximise its revenue generation thus it should improve sales and expand to new markets. Financial sustainability of the SEE should be prioritised. Further, the Committee requested that SEEs should be given a preferential procurement status when government is in the process of acquiring goods. The Department submitted that more than 90 per cent of employees at SEE are people with disabilities. The growth and expansion of SEEs services would contribute to government's strategic objective aimed to enhance support to vulnerable groups. The Department submitted that discussions are underway with National Treasury and other government departments in an effort to facilitate that government departments to procure goods from the SEEs, and this would also apply to the Department and its entities.
9. The Department reported that there are 214 vacant posts within the Department, and the suspension of appointments would not affect service delivery for the current financial year. Further, the Department submitted that critical posts will still be filled. During the current financial year, and over the medium term period the Department will continue to strengthen the capacity of the *Inspection and Enforcement Services, focusing on* training and development of new inspectors to be able to respond to the demand of services exacerbated by *COVID-19*.
10. The Department submitted that COVID-19 had an effect to its operations. Like many organisations it is in the process to reposition the organisational service delivery architecture to be able to respond to the 'new normal' of conducting business including public services. The Department reported that it would use every resources at its disposal to respond to the COVID-19 protocol requirements. Currently, the Department is using young people participating as learners in the *Labour Activation Programme* as *Service (Queue) Marshals* in the labour centres. This work opportunity does not only support enforcement of social distancing protocols in the labour centres, but also give

workplace exposure to the learners to understand various services offered by the Department.

11. Further, The Department submitted that over the medium term it will continue to prioritise gender equity considerations in the workplace including tackling sexual harassment of women. The gender based violence regulations in the workplace would also be aligned to international conventions.

5. Recommendations

The Committee has observed that government will need to act in partnership with the private sector, and labour movement to restore the economy, and create jobs. Further it was quite clear that the job market was damaged during the lockdown. Further despite government's fiscal, monetary and social relief measures to protect jobs and incomes, it appears that jobs will be lost, and the situation will deepen if economic recovery measures are not effectively implemented.

Further, the Committee noted that *COVID-19* has had an impact to the operations of the Department, and some of the funds suspended by government would likely be restored in the in the 2021 medium term. However, the 2021 medium term spending plans would certainly emphasize on how, and on what spending priorities would make an impact to contribute to government's inclusive growth agenda. Rather than witnessing significant increase on public spending. Since the government is also aiming to balance public finances by reducing budget deficit, public debt to GDP, and accelerating efforts to eliminate public spending leakages. In addition, boosting efforts to reset the economy to create jobs.

The Committee guided by the main budget report adopted, and the new information originating from the Supplementary Adjustments Budget, and revised APP provided by the Department reiterates that the government will need to act fast to implement its spending plan priorities for jobs, and proposed the following recommendations to the Minister of Employment and Labour:

1. The Committee noted the reduction of planned spending in respect to the *Functional Policy Programme* 2: *Inspection and Enforcement services and the Functional Policy Programme: 3 Public Employment Services including Functional Policy*

Programme 4: Labour Policy and Industrial Relations' spending. For the record, these programmes constitute as the core policy priority of the Department. Over the 2021 medium term budget process, National Treasury taking into cognisance available resources should consider to restore the resources allocated in these programmes.

2. Further, the Committee reiterate that the organisational health and capacity including financial sustainability of the Supported Employment Enterprises (SEEs) should be prioritised. The Department working close with *National Treasury* in partnership with the *Department of Trade, Industry and Competition* should work on a mechanism that would ensure that business operations of the SEEs are sustainable. Further, over the medium term both *National Treasury* and the Department should explore alternative funding and financing sources to support growth and expansion of the SEEs.
3. The Committee noted low levels of productivity growth and sustained competitiveness in the South African economy. *Productivity South Africa*, over the 2021 medium term should be prioritised. Over the 2021 medium term *Productivity South Africa* should develop a business model that would ensure that it becomes financial sustainable, and scale up its operations to support growth and sustainability of businesses.
4. Further, the Committee emphasised that employment sustains growth of the economy, and therefore the Department should fast track and finalise the development of the *Employment Policy* by the end of the 2020/21 financial year.
5. *COVID-19* would certainly have a negative effect on the economy and jobs. *Public Employment Services* will be pivotal to support job seekers including retrenched workers. The Department should engage National Treasury to allocate *Earmarked Funds* dedicated to support job seekers, and scale up employment creation programme working in an integrated manner with industry players and *Post-Secondary Institutions*.

Report to be considered.

3. REPORT OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, SMALL BUSINESS DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR ON ADJUSTED BUDGET VOTE 39: TRADE, INDUSTRY AND COMPETITION, AND THE 2020/21 REVISED ANNUAL PERFORMANCE PLAN OF THE DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION, DATED 21 JULY 2020

1. Background

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour*, having considered the *Supplementary Adjustments Budget of Vote 39: Trade, Industry and Competition*, and the 2020/21 revised *Annual Performance Plan* (APP) of the *Department of Trade, Industry and Competition tabled by the Minister of Trade, Industry and Competition,* reports as follows:

2. Introduction

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and the revised *2020/21 APP of Budget Vote 39: Department of Trade, Industry and Competition*. The Committee engaged the Department on the 10 July 2020. This engagement follows the tabling of the *Supplementary Adjustments Budget* by the *Minister of Finance* on the 24 June 2020.

It was noted that South Africa entered the *COVID-19* phase already faced with weak fiscal position. Gross government debt has continued to rise as a result of weak economic growth, high levels of expenditure and repeated funding support to state owned companies. It was further reported that the rating downgrades would increase the cost of government borrowing. The currency weakness remains a concern.

Rising unemployment remains a challenge, further declining real GDP per capita, and low business sentiment are some of the risks that need to be addressed. Depressed household finances would likely affect livelihoods. Unskilled, and semi-skilled workers are projected to be hit hard by the COVID-19 pandemic.

South Africa trade connection with other economies is not much deeper compared to other emerging economies. However, South Africa in terms of trade is much depended to the major economies such as China, Germany, UK and USA.

Further, the Department acknowledged the trade deficit it has with BRICS member countries, but further emphasised that the industrial strategy adopted by government seeks to address some of the challenges that the country is experiencing. Hence it is important for South Africa to diversify the export basket to include greater share of higher value added manufactured products.

The Committee expressed that for the country to growth and jobs objectives, it would require both domestic and significant international investment. For the country to attract investment it should build solid investment environment to '*Ease of Doing Business'* in the country, and improve production capacity and capability.

The Department indicated that as both global and domestic economy faces a recession, government is forging ahead to formulate plans in partnership with the private sector to take advantage of growth opportunities across the African continent. The Department reported that it is leading some of the economic growth recovery intervention to exploit opportunities presented the Continental Free Trade Agreement. Further, the *2019 Investment Conference* commitments will be unlocked, current R600 billion in investments have been committed, these investments are from companies such as Mercedes Benz and Ford.

The Committee noted in the *2020/21 Main Budget Report* that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the *COVID-19* pandemic. Further, the Committee recognised that the COVID-19 had an effect to the departmental spending plan priorities. According to the *2020/21 Supplementary Budget Review,* the overall adjustments to the spending plans of government departments was guided by:

- Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
- Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
- Suspending allocations to programmes with a history of poor performance and/or slow spending;
- Redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package.

The Department submitted that the revised spending plan priorities have been refined to ensure that it is fit for purpose to ensure that all economic opportunities are unlocked. The Department reported that it will work in collaboration with provincial and local government including the private sector to deepen insights into how to productively deal with economic reconstruction.

Over the medium term period, a significant feature of the spending plans would respond more appropriately to COVID-19 interventions, given its enormous impact on the economy and employment. Further, government would increase efforts to attract investments, growth and expansion of businesses, drive industrial development within the context of spatial planning and development. Job creation initiatives remain central on government inclusive growth agenda.

It was reported that in a world that has seen problems in the disruption of supply chains, the Department has resolved to assist in building a more resilient domestic supply chain in order to enable South Africa to build its own domestic capabilities. Capacity building of supply in areas of personal protective equipment (PPE's), boosting the pharmaceutical industry's capacity and other industries during this period and beyond to encourage localisation across different platforms and programmes would remain a priority.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R1,77 billion in funds initially appropriated to the Department. In the 2020 Main Budget the Department was approximately appropriated R11 billion. Despite the 17 per cent reduction of the departmental budget, the Department has undertaken to increase its key performance areas and outcomes. Within the current department's operational context, the

Department resolved to do more with less, endeavoring to dig as deeply as possible into non-financial capabilities to achieve the objective of getting the economy back to higher growth.

3. Impact of COVID-19 on Departmental Spending

The aim of the Department is to foster a dynamic industrial, globally competitive South African economy, characterised by meaningful economic transformation, inclusive growth and development, decent employment and equity, built on the full potential of all citizens.

The core functional policy priorities are constituted around crucial policy functional areas namely; namely *Programme 2: Trade Policy, Negotiations and Cooperation; Programme 3: Spatial Industrial Development and Economic Transformation; Programme 4: Industrial Competitiveness and Growth; Programme 5: Consumer and Corporation Regulation; Programme 6: Industrial Financing; Programme 7: Export Development, Promotion and Outward Investments; Programme 8: Inward Investment, Attraction and Aftercare; Programme 9: Competition Policy and Economic Planning and Programme 10: Economic Research and Coordination. Programme 1: Administration* is primary providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

As the result of the changes to *the 2021 Main Budget*, the Department indicated that its spending focus will cover the following budget policy priorities:

- Developing a shared service framework for the Department and its entities to avoid duplication of costs and release resources for front-line programmes;
- Strengthening coordination capabilities to support trade and to protect South Africa's industrial base;
- Creating a *Special Economic Zone* (SEZ) Project Management Unit, to enable better-performing SEZ's;
- Economic Recovery Programme developed to support greenfield and brownfield investments and companies in distress in order to retain jobs and industrial capacity;
- Reviewing key legislation to take into new developments;
- Refocussing industrial support not only for new growth but also to maintain existing jobs and industrial capacity and assets;

- Prioritising growth of exports to other African countries, which include focussed work on the *Africa Continental Free Trade Agreement* and supporting new export markets outside South Africa and new products for export;
- Enabling the implementation of the *2018 and 2019 Investment Conference* commitment of projects;
- Enhancement of domestic industrial finance system which includes DFIs and other funders to crowd in more funding to enterprises and streamline industrial support;
- Reduction in the transmission of COVID-19 at the workplace;
- Optimisation of resources within the DTIC portfolio of entities through the implementation of a shared services model for the DTIC entities.

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the COVID-19 pandemic. Further, resources were also shifted towards government policy objective to stabilise public finances.

Table 1: Summary of Revised Budget: Trade, Industry, and Competition

R thousand	2020/21 Main Budget	Downward revisions			Reallocations			2020/21 Total Net Change Proposed	2020/21 Total Allocation Proposed
		Suspension of funds (COVID-19 Purposes)	Virements of Funds from COVID-19	Virements of Funds from (Other)	Allocated to COVID 19 Purposes	Virements of Funds to COVID-19	Virements of Funds to (Other)		
Programmes									
Administration	873 590	-16 000	–	–	–	–	–	-16 000	857 590
Trade Policy, Negotiations and Cooperation	133 969	-5 520	–	–	–	–	–	-5 520	128 449
Spatial Industrial Development and Economic Transformation	171 899	-11 956	–	–	–	–	–	-11 956	159 943
Industrial Competitiveness and Growth	1 992 120	-338 874	–	–	–	–	–	-338 874	1 653 246
Consumer and Corporate Regulation	342 327	-29 561	–	–	–	–	–	-29 561	312 766
Industrial Financing	6 059 122	-1 699 116	–	–	500 000	–	–	-1 199 116	4 860 006
Export Development, Promotion and Outward Investments	456 675	-45 786	–	–	–	–	–	-45 786	410 889
Inward Investment Attraction, Facilitation and Aftercare	58 299	-2 600	–	–	–	–	–	-2 600	55 699
Competition Policy and Economic Planning	908 413	-119 015	–	–	–	–	–	-119 015	789 398
Economic Research and Coordination	85 724	-3 000	–	–	–	–	–	-3 000	82 724
Total	**11 082 138**	**-2 271 428**	**–**	**–**	**500 000**	**–**	**–**	**-1 771 428**	**9 310 710**
Economic classification									
Current payments	**1 976 647**	**-51 353**	**–**	**–**	**–**	**–**	**–**	**-51 353**	**1 925 294**
Compensation of employees	1 171 420	–	–	–	–	–	–	–	1 171 420
Goods and services	805 227	-51 353	–	–	–	–	–	-51 353	753 874
Transfers and subsidies	**9 071 370**	**-2 220 075**	**–**	**–**	**500 000**	**–**	**–**	**-1 720 075**	**7 351 295**
Departmental agencies and accounts	1 175 946	-132 882	–	–	–	–	–	-132 882	1 043 064
Foreign governments and international organisations	42 808	-4 282	–	–	–	–	–	-4 282	38 526
Public corporations and private enterprises	7 695 138	-2 067 257	–	–	500 000	–	–	-1 567 257	6 127 881
Non-profit institutions	156 536	-15 654	–	–	–	–	–	-15 654	140 882
Households	942	–	–	–	–	–	–	–	942
Payments for capital assets	**34 121**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34 121**
Machinery and equipment	18 649	–	–	–	–	–	–	–	18 649
Software and other intangible assets	15 472	–	–	–	–	–	–	–	15 472
Payments for financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**11 082 138**	**-2 271 428**	**–**	**–**	**500 000**	**–**	**–**	**-1 771 428**	**9 310 710**

Source: National Treasury, Supplementary Budget, 2020

In the current financial year, the Department as part of the government wide downward revision exercise on spending plan priorities is expected to forgo R1,77 billion. Of which in terms of economic composition, the Department is anticipated to forgo R51,35 million on *Goods and Services* and R1,72 billion on *Transfer and Subsidies.* The Functional Policy Programmes, Programme 1: Administration is expected to forgo R16 million, all of the funds are derived from Goods and Services spending item.

The policy area that that in relation with *Trade Policy, Negotiations and Cooperation, the functional policy area is expected to* forgo R5,52 million, which is composed of R2 million on *Goods and Services* and R3,5 million on *Transfers and Subsidies*. Despite this reduction on spending, the Department has committed to redirect resources to take advantage of opportunities brought about by the coming into effect of the African Continental Free Trade Area (AfCFTA) Agreement. Apart from the AfCFTA, the Department will position the country to exploit opportunities presented by various international trade agreements such as the *SADC European Union (E U) Economic Partnership Agreement* (EPA), *SACU Mozambique EPA with the United Kingdom* (UK) and *African Growth and Opportunity Act, 2000* (AGOA). South Africa role in G20 and BRICS will be enhanced to benefit the country and the rest of the African region.

In relation with the policy area on *Spatial Industrial Development and Economic Transformation,* the Department is expected to forgo R11,59 million, of which R10,2 million is on *Goods and Services*, and R1,7 million is on Transfers and Subsidies. Over the medium term the Department reported it will accelerate implementation of the *Special Economic Zones* (SEZs) and the *Revitalisation of Industrial Parks*, and continue to implementing the *Black Industrialist Programme*. The Committee noted the role of sub-national governments in the development of economic development programmes. The Committee felt this is the area that need to be prioritised to ensure that provincial and local government including private sector are better engaged to ensure successful implementation of the programme.

Functional Policy Programme 4: Industrial Competitiveness and Growth's spending is expected to decline by R338,874 million, of which R500 thousand is on *Goods and Services* and R338,374 million is on *Transfer and Subsidies.* The funds were derived from the *National Metrology Institute of South Africa* (R13,49 million-operations, and R15,25 million for capital), R16,92 million for operations from the *National Regulator for Compulsory Specifications and R3,69 million from the South Africa Accreditation System. Further, other funds in relation to Industrial Competitiveness and Growth's* spending were originated from the *Centurion Aerospace Village (R1,72 million for operations),* R6,8 million from *Intsimbi Future Production Technologies Initiative,* R3,9 million from the operations of the *Proudly South Africa Campaigns,* R2 million from the *Trade and Industrial Policy Strategies* for policy development. Further, other funds were derived from the Aerospace Industry (R5 million), R12 million from the *National Cleaner Production Centre* and R4,7 million from the *National Foundry Technology Network*.

The functional policy area will also forgo R183,133 million from the *Clothing, Textile, Leather and Footwear Competitiveness Improvement Programme* administered by the *Industrial Development Corporation-IDC*, and R64,8 million from the operations budget of the *South African Bureau of Standards*. The Committee raised concern about the reduction of the budget with regard to the *Industrial Competitiveness and Growth policy area. The policy area is critical to the efforts of government to drive growth and jobs creation objective.*

Another policy is that experienced significant budget cut is the *Functional Policy Programme 6: Industrial Financing, which is* expected to forgo R1,199 billion, of which R5,5 million is on *Goods and Services,* and R1,193 billion is on *Transfers and Subsidies.* The funds were originated from the *Critical Infrastructure Programme* (R50 million), R100 million from *Export Market and Investment Assistance,* R683,616 million from *Manufacturing Development Incentives,* R200 million from *Services Sector Development Incentives.* In addition, R30 million from *Industrial Innovation Incentive Scheme* that support black businesses. Further, R30 million was derived from the *Bulk Infrastructure development,* and R100 million from the *Special Economic Zones* funds.

However, *Industrial Financing* is expected to receive R500 million as part of the departmental reprioritisation exercise to support firms that are in distress as a result of the restrictions on economic activity. Over the medium term the Department reported it will accelerate implementation of the *Special Economic Zones* (SEZs) and the *Revitalisation of Industrial Parks*, and continue to implementing the *Black Industrialist Programme*. The Committee noted the role of sub-national governments in the development of economic development programmes.

The Committee emphasised the importance of the *Broad-Based Black Economic Empowerment (B-BBEE) initiative's contribution to an inclusive growth agenda.* However, the pace and depth of B-BBEE has underperformed leading to a narrow base of beneficiaries. The B-BBEE programme should address equity, and fully integrate women, youth, disabled, rural communities, and people who are poor to the mainstream economy.

The Department reported that the *Industrial Parks Revitalisation Programme* which is in its fourth year is one of the key programmes. The programme has been expanded from 10 to 27 Industrial Parks. Phase 1 of this programme has been completed in 12 Industrial Parks. To date a total of R760 million has been approved for funding of Phase 1 and 2. A total of 1429 job opportunities have been created since the inception of the programme. The Industrial Parks host both heavy and light industrial businesses in various sectors and currently employ 65 000 people.

Further the Department submitted that the Industrial Parks programme will incorporate the digital hubs, which would create a platform which provides access to technology, digital training, shared facilities and work spaces with particular focus on youth owned enterprises. The programme is expected to be implemented country-wide in partnership with the Department of Small Business Development and the private sector. The currently, Department is implementing the digital hub platform in Botshabelo-Digital Hub in the Free State and the iSithebe Digital Hub in Kwa-Zulu Natal. The Committee felt this is the area that need to be prioritised to ensure that provincial and local government including private sector are better engaged to ensure successful implementation of the programme.

With regard to *Functional Policy Programmes, Programme 5: Consumer and Corporate Regulation,* the programme is expected to forgo R29,56 million, of which R500 thousand is on *Goods and Services*, and R29 is on *Transfer and Subsidies* which is composed of R2 million on operations budget of the *Companies Tribunal,* R6,9 million on operations of the *National Consumer Commission,* R6,2 million on the operations budget of the *National Consumer Tribunal,* R9,2 million on the operations budget of the *National Credit Regulator, and* R3,9 million from the operations budget of the *National Gambling Board.*

The *Functional Policy Programmes, Programme 7: Export Development, Promotion and Outward Investments'* spending is anticipated to decline by *R45,7 million*, of which R4 million is on *Goods and Services,* and R41 million is on *Transfers and Subsidies.* The funds that are suspended were originated from the *Transfers and Subsidies* composed of R172 thousand from the *World Bank* to conduct feasibility studies, R171 thousand from the International Finance Corporation to assist the South African businesses to build long term sustainable export strategy, and R41 million from the *Export Credit Insurance Corporation of South Africa* originated from the *Interest Mark-Up Scheme*.

With regard to the *Functional Policy Programmes, Programme 8: Inward Investment Attraction, Facilitation and Aftercare's* spending is expected to decline by R2,6 million, the entire funds were derived from *Goods and Services* spending item. The policy area that focuses on *Competition Policy and Economic Planning* is expected to forgo R119 million, of which R7 million is on Goods and Services and R112 million is on *Transfers and Subsidies*. The funds that were derived from the *Transfers and Subsidies* composed of R37,46 million from the operations budget of the *Competition Commission*, R4,2 million from the operations budget of the *Competition Tribunal* and R12,69 million from the operations budget of the International Trade Administration Commission. Further, some of the funds which were suspended were originated from the *Steel Development Fund* (R7,5 million) administered by the IDC, and R50 million from the operations budget of SEFA.

The Committee stressed that under the current economic and health conditions caused by the *COVID-19 pandemic*, South Africa in order to drive economic growth and job creation agenda would require both domestic and significant international investment. South Africa would have to compete with other emerging markets and ensure it is a globally attractive investment destination. The work of the Department would be central to attract investment boost economic growth and employment.

The *Functional Policy Programmes, Programme 10: Economic Research and Coordination's spending is expected to decline by R3 million, all originated from the Goods and Services spending item.* Most of the spending on Goods and Services suspended relates to allocations to general operational spending items such as travel and subsistence, communications, inventory and consumables, and venues and training facilities.

4. Issues Arising from Engagement

1. The Committee noted that both domestic and global economic growth will record negative growth due to the *COVID-19* pandemic impact. The International Monetary Fund, South Africa Reserve including National Treasury have revised downwards South Africa's GDP growth prospects for 2020. Investment confidence remains low, currency remains volatile, unemployment posing a potential for social instability, and public finances are also at high risk coupled with challenges faced by critical state entities, which are directly linked to future the country's economy.
2. Department re-assured the Committee that government efforts such as the R500 billion economic and social development package, industrial and development *Master Plans* for the automotive sector, poultry industry and retail (clothing, textiles, leather and footwear industries), including a special focus on the implementation of *the Integrated Resource Plan 2019*, are some of the interventions put together to drive considerable investments, particular in renewable energy give an impetus that the economy will recover.
3. Further, the Department re-iterated that government in partnership with the private sector and civil society will ensure that investment projects announced at the second *Investment Conference in 2019* are fully realised. The *African Continental Free Trade Area* (AfCFTA) presents growth opportunities for South African companies.
4. The Department acknowledged the trade deficit it has with BRICS member countries, but further emphasised that the industrial strategy adopted by government seeks to address some of the challenges that the country is experiencing. Hence it is important for South Africa to diversify the export basket to include greater share of higher value added manufactured products. Further, South Africa would pursue the global trade transactions guided by international trade and investment regime.
5. The Committee further noted that the budget cuts in relation to the some of the core policy areas such as the *Industrial Competitiveness and Growth and Industrial Financing* was a concern, and that has the potential to compromise economic growth and jobs' objectives. The Department agreed, however it stressed that government is committed to drive economic growth and jobs policy objectives. The Department believes that the suspended funds in respect of the *Industrial Competitiveness and*

Growth and Industrial Financing policy areas would be restored in the 2021 budget allocations.

6. In response to concerns raised regarding financing for SEZ and Industrial Parks, the Department indicated that whilst is providing support programmes it has a limited funding, hence it is requesting the Committee to support its effort in facilitating and mobilising provincial and local governments as hosts to the industrial and development platforms to contribute in funding and financing the SEZ and the Industrial Parks. The Department indicated that Ministers and Members of Executive Council (MINMEC) meetings are envisaged to find creative solutions to address the funding and financing requirements. The Department for instance proposes that the sub-national governments should use re-invest the rental funds generated in the industrial development platforms to propel growth and expansion of the industrial development platforms by investing in infrastructure development of the SEZ and Industrial Parks.
7. The Committee emphasised that the success of the SEZ and Industrial Parks programme hinges on collaborative efforts by all spheres of government.
8. The Department made an undertaking that it will address the issues related to governance that occurred at the *National Lotteries Board*. The Department submitted that it will certainly brief the Committee on the outcomes of the forensic investigation report.
9. Localisation programme remains a priority, that Department reported. To this effect, the Department reported that it working with National Treasury to strengthen governance regime to ensure that local manufacturing capacity is supported. Further, enhance implementation of the *Black Industrialist Programme*.
10. The Committee stressed that spatial distribution of development resources should be prioritised. The rural and urban gap should be addressed. Investment aimed to boost industrial development should take into account spatial development considerations.
11. Further, the Committee stressed that government need to pace the implementation of the economic recovery plan to double efforts to address poverty, inequality and unemployment. Post-*COVID-19 efforts* should yield positive outcomes with regard to investments, growth and expansion of businesses in particular small enterprises both in urban and rural economies, and boost job creation in order to avoid socio-economic instability.

5. Recommendations

The Committee noted that the COVID-19 pandemic has caused negative shock on the economy, South Africa like other nations, has lost economic activity that would have medium-term and long-term economic effects. The pandemic has caused uncertainty, disrupted normal planning processes, and affected firms and governments operations.

The Committee emphasised that it is crucial for government and its development agencies to allocate scare resources better and provide support to businesses to preserve jobs and incomes of households. Further subnational governments' capacity and capability would need to be geared-up.

Further, given the vital role of provinces, local government and private sector in small enterprise development, industrial development and innovation, it is critical that an effective multilevel governance in supporting growth and development of businesses, whether big or small need to be promoted and enhanced. In addition, industrial development initiatives such as *Special Economic Zones*, and Industrial Parks should be aligned with growth strategies of hosting regions.

The Committee guided by the main budget report adopted, and the new information originating from the *Supplementary Adjustments Budget*, and the revised APP provided by the Department reiterates that the government will need to act fast to implement its spending plan priorities for jobs, preserve economic productive capacity, and attract investments. To this end, the Committee proposed the following recommendations to the *Minister of Trade, Industry and Competition:*

1. Given the pivotal role of the functional policy areas such as the *Spatial Industrial Development and Economic Transformation, Industrial Competitiveness and Growth, Industrial Financing* contribution to the government's inclusive growth agenda, budget cuts in these functional policy areas is a concern. The Committee put it on record that in the 2021 medium term, the funds that were suspended in respect of the functional policy areas should be restored.
2. The Committee noted that COVID-19 has negatively affected many firms in almost all industries in the economy. Industrial production capacity has been disrupted, and many

jobs in the economy are set to be lost. The Committee welcomes that *the Industrial Financing* is expected to receive R500 million through the departmental reprioritisation exercise to support firms that are in distress as a result of the restrictions on economic activity. However, Committee recommends that the Department should engage National Treasury to provide additional funding over the 2021 medium term to upscale financing support directed to the companies in distress.

3. Over the medium term the Department should accelerate the implementation of the *Industrial Parks Revitalisation Programme*. Working in partnership with other departments such as *Small Business Development*, and sub-national governments the Department need to provide incubation and business development support in the *Industrial Parks*, which include market linkage facilitation so that the *Industrial Parks* can attract, support and sustain new firms. Firms located in the *Industrial Parks* should be exposed to various government incentives schemes.
4. The Department has several incentives schemes such as the manufacturing investment schemes, competitive investment scheme, service investment, industrial innovation investment cluster competitive investment, and infrastructure investment schemes. The Committee urges the Department to improve coordination across levels of government to strengthen and enhance allocation of resources across industrial development programmes.
5. South Africa has high number of unemployment, and with surplus of unskilled labour. There is a growing concern that the *Special Economic Zones* should also priorities labour intensive sector. The Department should consider that some of the SEZ to focus on labour intensive firms.

Report to be considered.

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**
National[1,2]	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.

11.6 The 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.