

# DIVISION OF REVENUE TO PROVINCES AND LOCAL GOVERNMENT

*Presentation to Select Committee on Appropriations*

Presenter: Wendy Fanoe | National Treasury | 15 July 2014



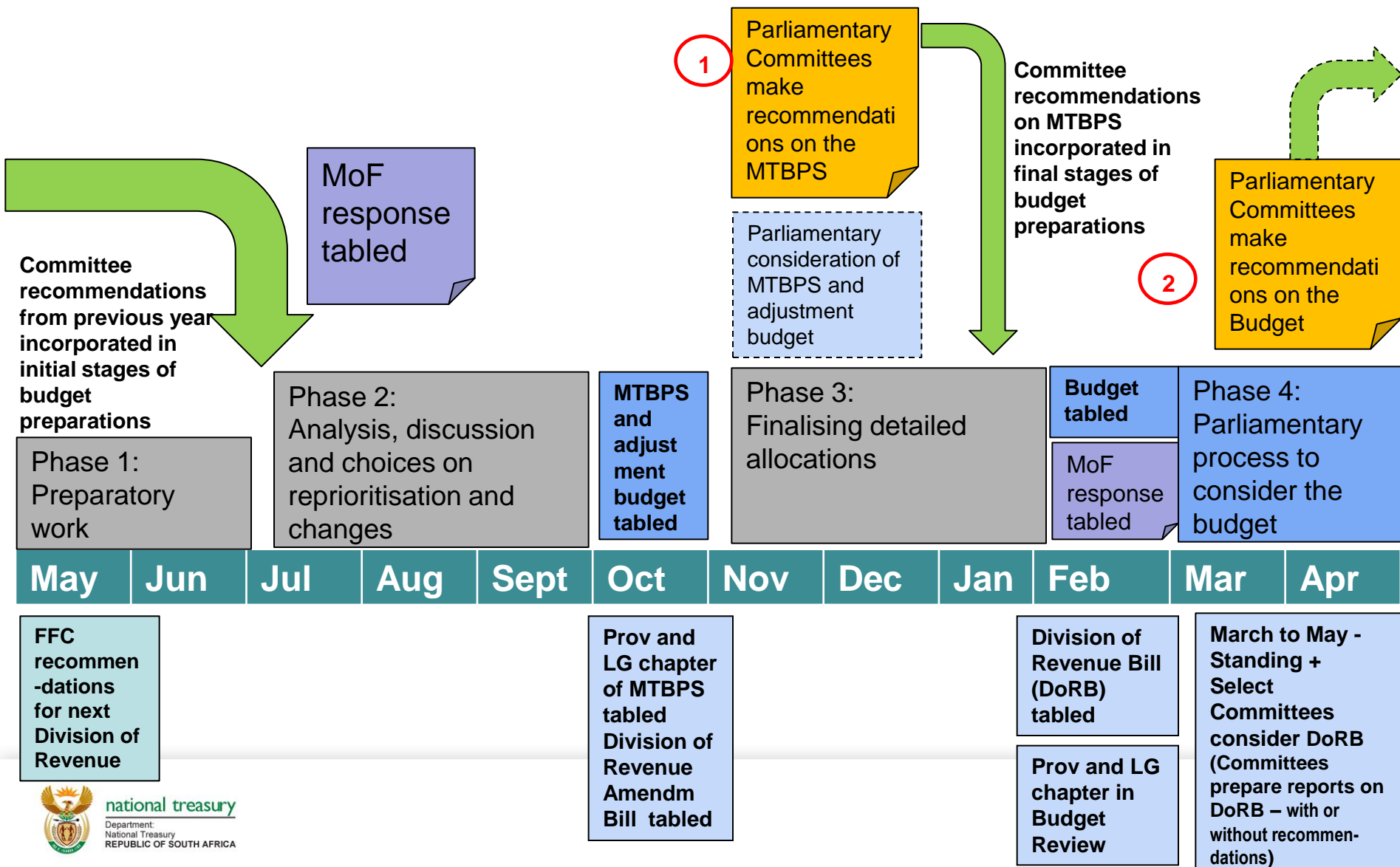
**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Outline

- Outline of the key steps in the national budget process
  - Division of Revenue (provinces and local government)
  - How Committee recommendations on provinces and local government feed into the national budget process (and division of revenue)
- What the MTBPS says about the Division of Revenue
  - what is important for Parliamentarians to consider/debate
- A “snap shot” of the provincial and local government fiscal frameworks
- What the Division of Revenue Bill contains
  - what is important for Parliamentarians to consider/debate

# How parliamentary recommendations feed into the Budget Process



# Annual Budget versus Division of Revenue

- The budget is a key statement of policy of the government (all 3 spheres)
  - it is the process through which choices have to be made about competing priorities (all 3 spheres)
    - 1 national budget, 9 provincial budgets and 278 municipal budgets
- Allocations to provinces and municipalities (equitable share, conditional grants, and grants-in-kind) contained in annual Division of Revenue Bill

## Provinces

- Each Provincial Legislature decides on where to allocate resources
- Provinces raise small amounts of own revenue
- Provinces primarily funded through provincial equitable share and also receive conditional grants for national agreed to priorities
- Priorities set nationally through: legislation, norms and standards or political statements



## Local government

- Each Municipal Council decides on where to allocate resources
- Municipalities raise (in aggregate) most of their revenue from own sources although poor municipalities much more reliant on transfers
- Municipalities receive equitable share to provide basic services to poor households as well as conditional grants for national agreed to priorities

# FFC Recommendations related to annual Division of Revenue



- The Financial and Fiscal Commission must make recommendations on the DoR in terms of Section 9 of the Intergovernmental Fiscal Relations Act. The Act requires recommendations be made on:
  - a) equitable division of revenue;
  - b) each province's equitable share; and
  - c) allocations to provinces & local government from national government's share and conditions attached to those allocations
- Government responds in the DoRB Explanatory Memorandum to all recommendations directly related and indirectly related to the DoR
- There are also numerous consultations with the FFC throughout the year, and the DoRB is submitted to the Commission 14 days before it is tabled.
- Before enactment of DoRB, Parliament, specifically its committees on appropriations, are required to take into account FFC's recommendations
  - (s214(2) of Constitution, sections 4(4)(c) & 9(7)(a) of Money Bills Amendment Procedure & Related Matters Act, 2009, and sections 9 & 10 of Intergovernmental Fiscal Relations Act, 1997)

# What the MTBPS says about the Division of Revenue for the next 3 years

- The Money Bills Amendment Procedure and Related Matters Act (2009) requires that the Medium Term Budget Policy Statement (MTBPS) includes the following with respect to the DoR:
  - *“The proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years*
  - *The proposed substantial adjustments to conditional grant allocations to provinces and local government, if any; and*
  - *A review of actual spending by each national department and each provincial government between 1 April and 30 September of the current fiscal year.”*
- The MTBPS covers these issues and is supplemented by additional detail presented to the Committees during hearings on the MTBPS
  - When specific reviews are underway on major aspects of intergovernmental financing additional briefings can be scheduled (e.g. briefings on the review of the local government equitable share formula in early 2013)

# Examples from the 2013 MTBPS

- MTBPS outlines all key decisions for Division of Revenue that will be tabled in Feb
- Parliamentary committees may want to engage on:
  - MTBPS chapter on provinces and LG/Division of Revenue indicates all major changes to allocations to provinces and LG
    - Policy priorities funded through grants (equitable share or conditional grants)
    - Any new grants and/or reforms to existing grants
    - Grants which will have their allocations reduced or increased (table 4.3 and discussions - pages 34 to 37 of 2013 MTBPS)
- At same time as MTBPS, Parliament also considers Division of Revenue Amendment Bill

**Table 4.3 Division of revenue, 2013/14 – 2016/17**

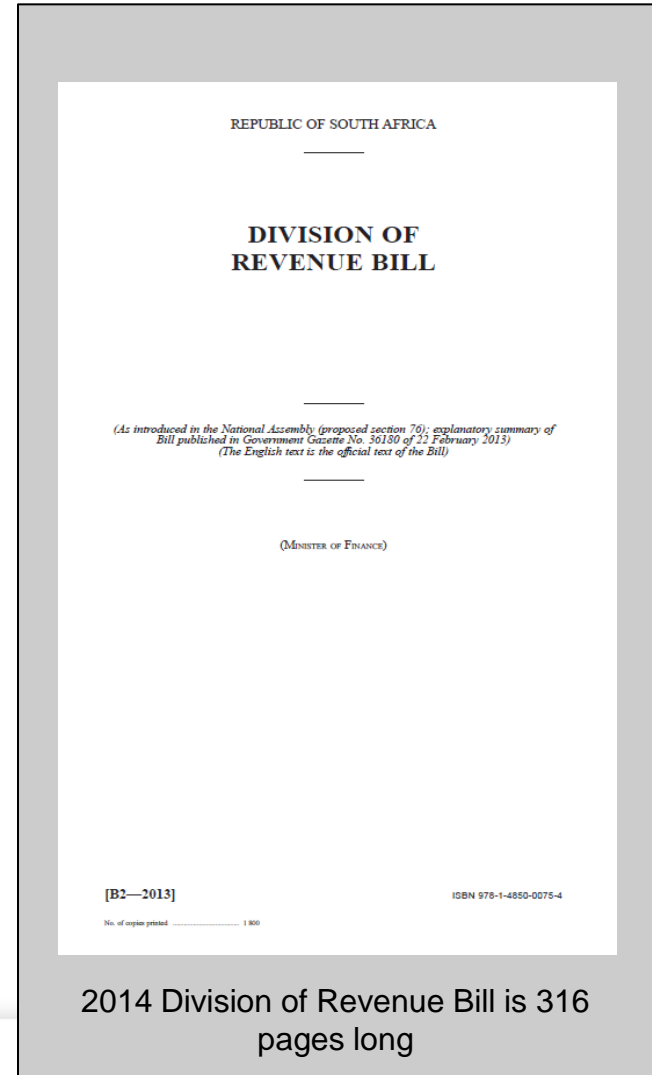
	2013/14	2014/15	2015/16	2016/17	Average
	Revised	Medium-term estimates			annual growth 2013/14 – 2016/17
<b>R billion</b>					
<b>National allocations</b>	<b>452.5</b>	<b>487.9</b>	<b>520.4</b>	<b>550.1</b>	<b>6.7%</b>
<i>of which:</i>					
<i>Indirect grants to provinces<sup>1</sup></i>	2.7	4.8	4.3	4.6	19.5%
<i>Indirect grants to local government<sup>1</sup></i>	5.7	7.3	9.1	9.7	19.5%
<b>Provincial allocations</b>	<b>415.8</b>	<b>444.7</b>	<b>478.2</b>	<b>507.8</b>	<b>6.9%</b>
Equitable share	338.9	362.5	388.0	412.0	6.7%
Conditional grants	76.9	82.3	90.2	95.8	7.6%
<b>Local government allocations</b>	<b>84.8</b>	<b>91.9</b>	<b>101.4</b>	<b>106.7</b>	<b>8.0%</b>
<b>Total allocations</b>	<b>953.1</b>	<b>1 024.5</b>	<b>1 099.9</b>	<b>1 164.6</b>	<b>6.9%</b>
<b>Changes to baseline</b>					
<b>National allocations</b>	<b>-</b>	<b>-1.6</b>	<b>-1.4</b>	<b>2.2</b>	
<i>of which:</i>					
<i>Indirect grants to provinces<sup>1</sup></i>	-0.4	-0.4	-0.7	-0.7	
<i>Indirect grants to local government<sup>1</sup></i>	0.2	0.1	0.4	0.5	
<b>Provincial allocations</b>	<b>1.7</b>	<b>3.0</b>	<b>3.8</b>	<b>4.4</b>	
Equitable share	1.4	2.5	4.3	5.1	
Conditional grants	0.3	0.5	-0.5	-0.7	
<b>Local government allocations</b>	<b>0.1</b>	<b>0.3</b>	<b>-0.1</b>	<b>-0.1</b>	
<b>Total</b>	<b>1.8</b>	<b>1.7</b>	<b>2.4</b>	<b>6.5</b>	

1. Amounts may be shifted between direct and indirect grants to provinces and local government before

the 2014 Budget is tabled

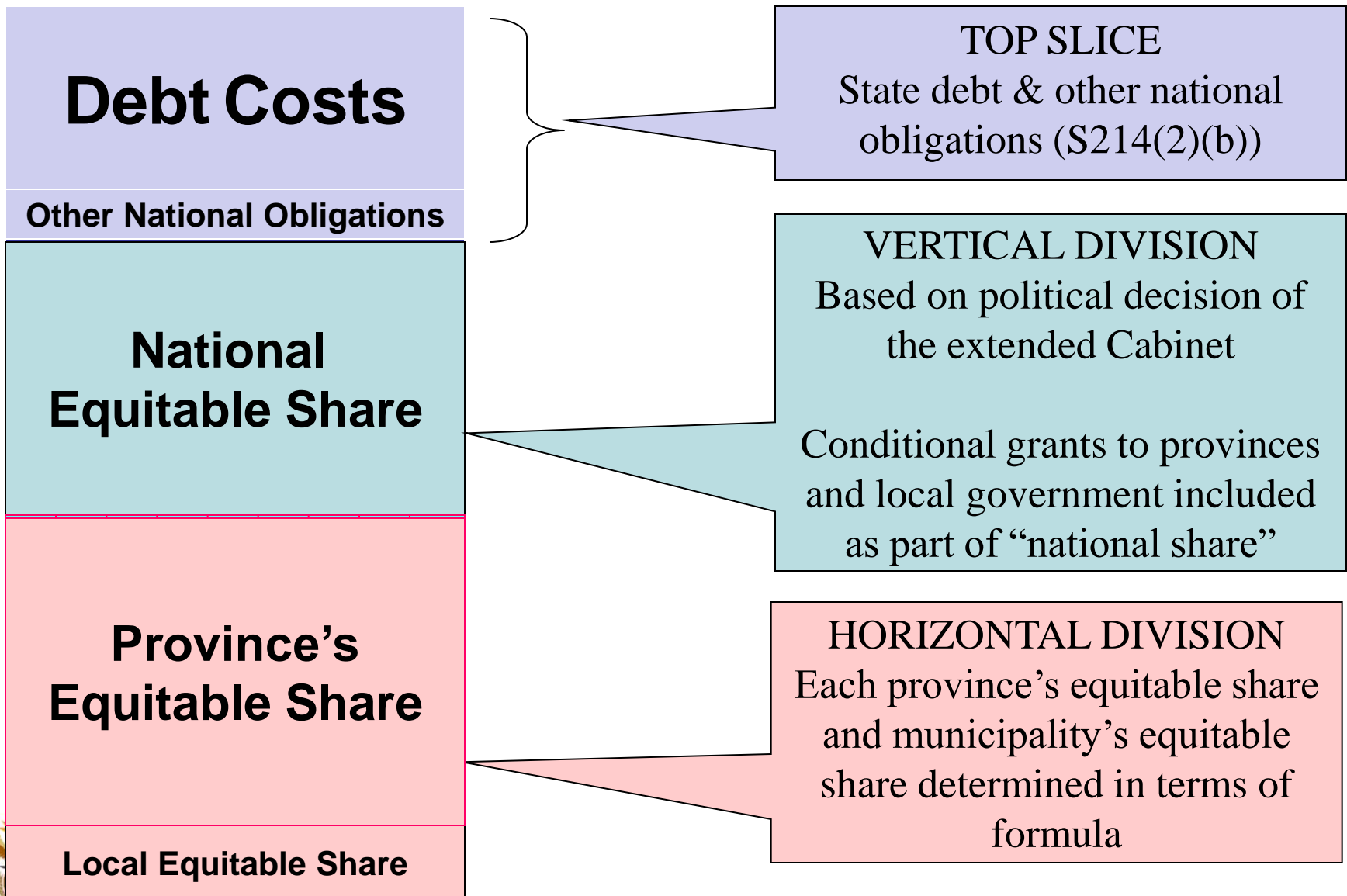
# The Division of Revenue Bill

- Minister of Finance tables the DoR Bill with Budget in February
- Constitution (s214(1)) requires an Act to provide for
  - a) An equitable division of revenue between the 3 spheres
  - b) The determine of each province's share of the provincial equitable share
  - c) Any other allocations to provinces or municipalities from national government
- Factors that inform division (s214(2))
  - (a) national interest
  - (b) national debt and other national obligations
  - (c) needs and interests of national govt
  - (d) need of provinces and municipalities to provide basic services and perform functions allocated to them
  - (e) fiscal capacity and efficiency of the provinces and municipalities
  - (f) developmental and other needs of provinces, LG and municipalities
  - (g) economic disparities within and among provinces
  - (h) obligations of provinces and municipalities i.t.o. national legislation
  - (i) desirability of stable and predictable allocations of revenue shares
  - (j) need for flexibility in responding to emergencies other temporary needs, and other factors based on similar objective criteria





# The Division of Revenue



# 2014 MTEF Division of Revenue

(as presented in the explanatory memorandum)

**Table W1.3 Division of nationally raised revenue, 2010/11 – 2016/17**

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Revised estimate	Medium-term estimates		
R million							
<b>Division of available funds</b>							
<b>National departments</b>	<b>356 027</b>	<b>382 712</b>	<b>412 706</b>	<b>449 251</b>	<b>489 424</b>	<b>522 257</b>	<b>552 983</b>
<i>of which:</i>							
<i>Indirect transfers to provinces</i>	–	76	860	2 693	5 413	5 044	4 127
<i>Indirect transfers to local government</i>	2 939	2 770	4 956	5 697	7 726	9 467	10 221
<b>Provinces</b>	<b>322 822</b>	<b>362 488</b>	<b>388 238</b>	<b>414 932</b>	<b>444 423</b>	<b>477 639</b>	<b>508 254</b>
<b>Local government</b>	<b>60 904</b>	<b>68 251</b>	<b>76 430</b>	<b>83 670</b>	<b>90 815</b>	<b>100 047</b>	<b>105 187</b>
Equitable share	30 541	33 173	37 139	39 789	44 490	50 208	52 869
Conditional grants	22 821	26 505	30 251	34 268	36 135	39 181	41 094
General fuel levy sharing with metropolitan municipalities	7 542	8 573	9 040	9 613	10 190	10 659	11 224
<b>Non-interest allocations</b>	<b>739 752</b>	<b>813 451</b>	<b>877 374</b>	<b>947 853</b>	<b>1 024 662</b>	<b>1 099 943</b>	<b>1 166 424</b>
<i>Percentage increase</i>	7.2%	10.0%	7.9%	8.0%	8.1%	7.3%	6.0%
Debt-service cost	66 227	76 460	88 121	101 256	114 901	126 647	139 201
Contingency reserve	–	–	–	–	3 000	6 000	18 000
<b>Main budget expenditure</b>	<b>805 979</b>	<b>889 911</b>	<b>965 496</b>	<b>1 049 109</b>	<b>1 142 562</b>	<b>1 232 590</b>	<b>1 323 624</b>
<i>Percentage increase</i>	7.9%	10.4%	8.5%	8.7%	8.9%	7.9%	7.4%
<i>Percentage shares</i>							
<i>National departments</i>	48.1%	47.0%	47.0%	47.4%	47.8%	47.5%	47.4%
<i>Provinces</i>	43.6%	44.6%	44.2%	43.8%	43.4%	43.4%	43.6%
<i>Local government</i>	8.2%	8.4%	8.7%	8.8%	8.9%	9.1%	9.0%

# The Division of Revenue

- Funds from the 'national share of resources' are allocated to national departments, provinces and municipalities in the Division of Revenue Act

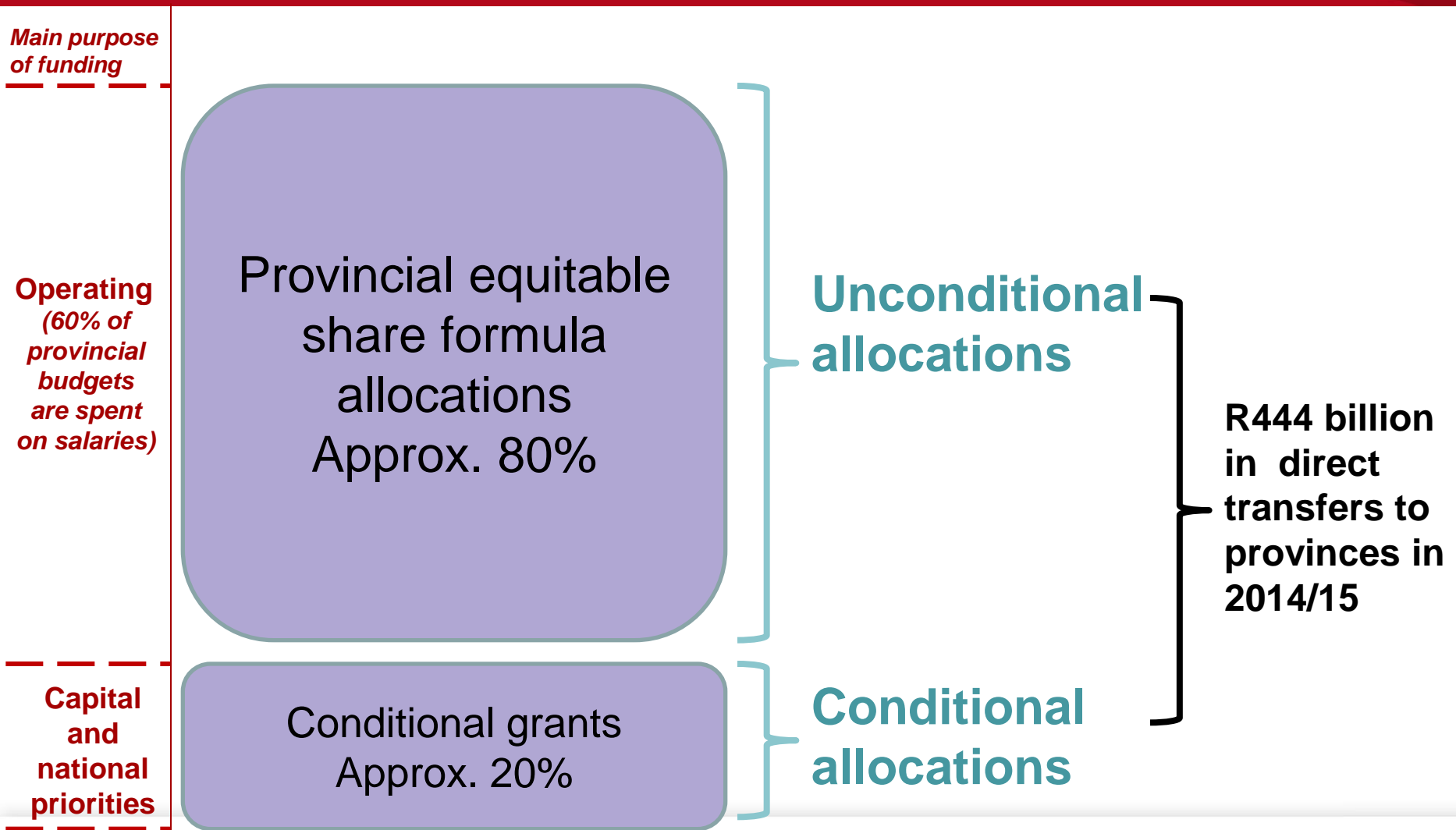
	2014/15 allocation	Examples of functions funded
National allocations	R489 billion (48%)	Funds for national functions including police, universities, railways, social grants
Provincial allocations	R444 billion (43%)	Funds for schools, hospitals, roads, social development, housing
Local government allocations	R91 billion (9%)	Water, electricity, sanitation, refuse removal, roads

Details of national department budgets in the Appropriations Act

Allocations to each province and municipality in the **Division of Revenue Bill/Act** (details of how this will be spent contained in provincial and municipal budgets)

Local government share is smaller because municipalities also collect funds from property rates and service charges

# Composition of provincial government transfers



# Provincial equitable share

- Provinces have limited own revenues
- The provincial equitable share formula accounts for 81.5% of transfers to provinces
- Equitable share funds are allocated through a formula based on objective data so that it is fair to all 9 provinces

## How the provincial equitable share formula works

### Education 48%

Allocated based on:

- School aged population
- Enrolled pupils

### Health 27%

Allocated based on:

- Population without medical aid (and health risk)
- Hospital and clinic use

### Basic Share 16%

Allocated based on:

- Share of population

### Poverty 3%

Allocated based on:

- Share of poverty

### Economic activity 1%

Allocated based on:

- Share of GDP-R

### Institutional 5%

Same allocation to each of the 9 provinces

# The provincial equitable share (PES)

- Allocated through a formula with six components
- Component weights reflect priority of social spending
- Data updates reflect movement in demand for services between provinces

**Table W1.10 Distributing the equitable shares by province, 2013 MTEF**

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	<b>48%</b>	<b>27%</b>	<b>16%</b>	<b>3%</b>	<b>1%</b>	<b>5%</b>	<b>100%</b>
Eastern Cape	15.3%	13.5%	12.7%	16.3%	7.7%	11.1%	14.2%
Free State	5.3%	5.4%	5.3%	5.4%	5.5%	11.1%	5.6%
Gauteng	17.3%	21.9%	23.7%	16.9%	33.7%	11.1%	19.4%
Kw aZulu-Natal	22.7%	21.7%	19.8%	22.2%	15.8%	11.1%	21.3%
Limpopo	13.1%	10.3%	10.4%	13.6%	7.2%	11.1%	11.8%
Mpumalanga	8.5%	7.2%	7.8%	9.1%	7.0%	11.1%	8.2%
Northern Cape	2.3%	2.2%	2.2%	2.2%	2.3%	11.1%	2.7%
North West	6.5%	6.7%	6.8%	8.0%	6.7%	11.1%	6.9%
Western Cape	8.9%	11.1%	11.2%	6.1%	14.1%	11.1%	10.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

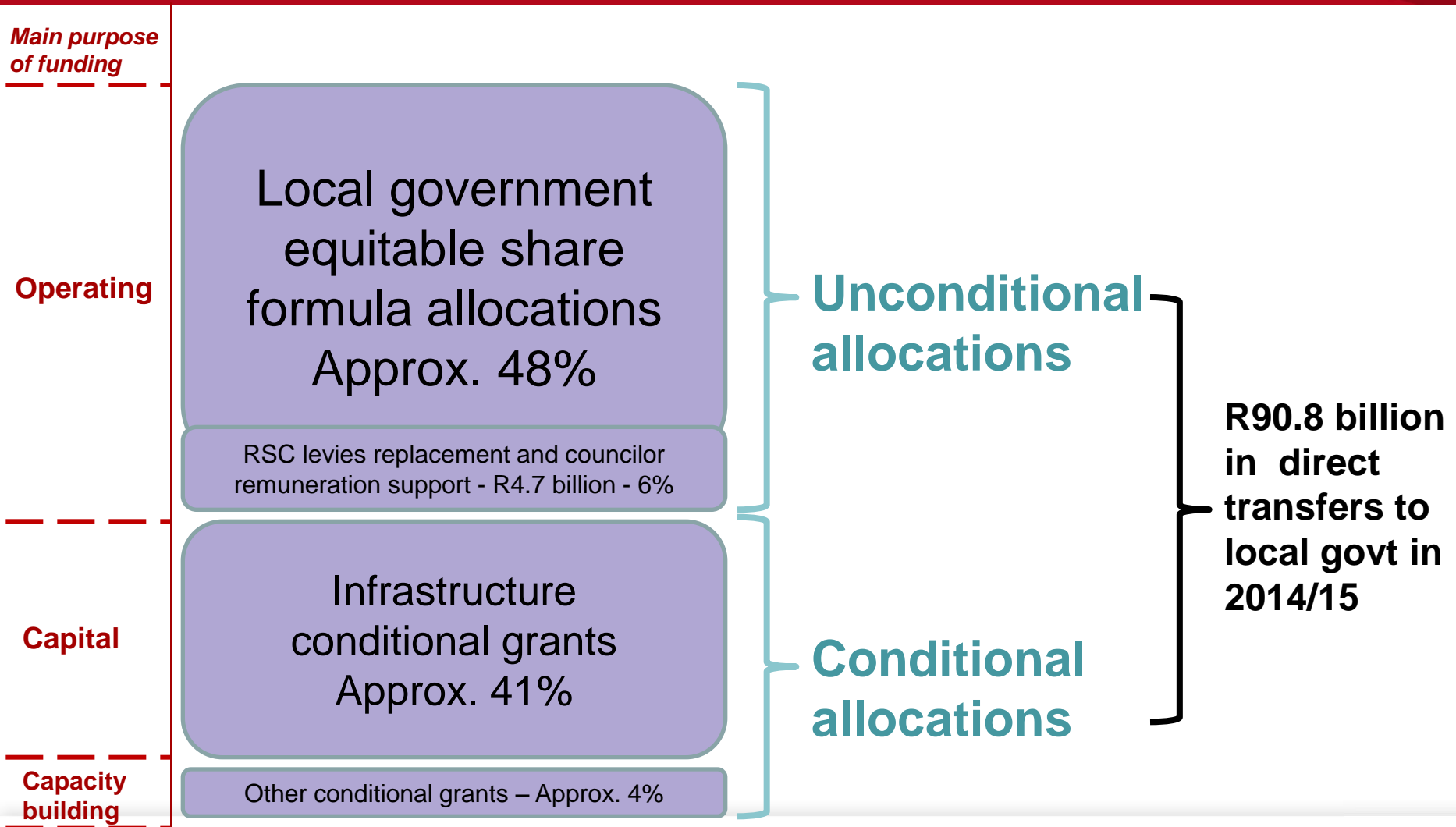
# Provincial conditional grants

- 24 direct conditional grants to provinces in 2014 MTEF (Table W1.19 in 2014 DoRB)
  - 5 conditional grants in health amounting to R30.1b in 2014/15
  - 1 conditional grant in human settlements amounting to R17.1b in 2014/15
  - 2 conditional grants in transport amounting to R14.2b in 2014/15
  - 6 conditional grants in basic education amounting to R13.2b in 2014/15
  - 3 conditional grants in agriculture amounting to R2.4b in 2014/15
- 4 indirect conditional grants to provinces in 2014 MTEF
  - School Infrastructure Backlogs Grant amounting to R2.9b in 2014/15
  - 2 grants in health amounting to R1.6b in 2014/15
  - Human Settlements Development (targeted at eradication of bucket sanitation) amounting to R1.9b over 2014 MTEF

**Table 7.3 Conditional grants to provinces, 2013/14 – 2016/17**

R million	2013/14	2014/15	2015/16	2016/17	MTEF total
Provincial equitable share	338 937	362 468	387 967	412 039	1 162 474
<b>Direct conditional grants</b>	<b>75 995</b>	<b>81 955</b>	<b>89 672</b>	<b>96 215</b>	<b>267 842</b>
Comprehensive agricultural support programme	1 604	1 861	1 688	1 757	5 306
Ilima/Letsema projects	438	461	482	507	1 450
Land care programme: poverty relief and infrastructure development	109	68	68	72	208
Community library services	598	1 016	1 341	1 412	3 768
Dinaledi schools	109	111	116	122	350
Education infrastructure	6 160	6 929	9 469	10 038	26 436
HIV and Aids (life skills education)	204	221	226	238	686
National school nutrition programme	5 173	5 462	5 704	6 006	17 172
Technical secondary schools recapitalisation	190	233	244	257	735
Occupational-specific dispensation for education sector therapists	–	213	67	–	280
Provincial disaster	38	197	204	215	617
Comprehensive HIV and Aids	10 534	12 311	13 957	15 697	41 965
Health facility revitalisation	5 291	5 240	5 389	5 652	16 281
Health professions training and development	2 190	2 322	2 429	2 557	7 308
National tertiary services	9 620	10 168	10 636	11 200	32 004
National health insurance	51	70	74	78	222
Further education and training colleges	2 454	2 631	2 819	2 974	8 424
Human settlements development	17 028	17 084	18 533	20 410	56 027
Expanded public works programme integrated grant for provinces	357	349	357	412	1 117
Social sector expanded public works programme incentive for provinces	258	258	268	375	900
Substance abuse treatment	–	29	48	48	124
Mass participation and sport development	498	526	550	579	1 654
Provincial roads maintenance	8 538	9 361	9 952	10 292	29 606
Public transport operations	4 553	4 833	5 053	5 318	15 203
<b>Total direct transfers</b>	<b>414 932</b>	<b>444 423</b>	<b>477 639</b>	<b>508 254</b>	<b>1 430 316</b>
<b>Indirect transfers</b>	<b>2 693</b>	<b>5 413</b>	<b>5 044</b>	<b>4 127</b>	<b>14 583</b>
School infrastructure backlogs	1 956	2 939	2 433	2 611	7 982
National health	731	1 575	1 635	1 516	4 726
2014 African Nations Championship health and medical services	6	–	–	–	–
Human settlements development	–	899	975	–	1 875

# Composition of local government transfers



A further R7.7 billion will be spent by national departments on behalf of municipalities through “indirect grants”



# Transfers to Local Government

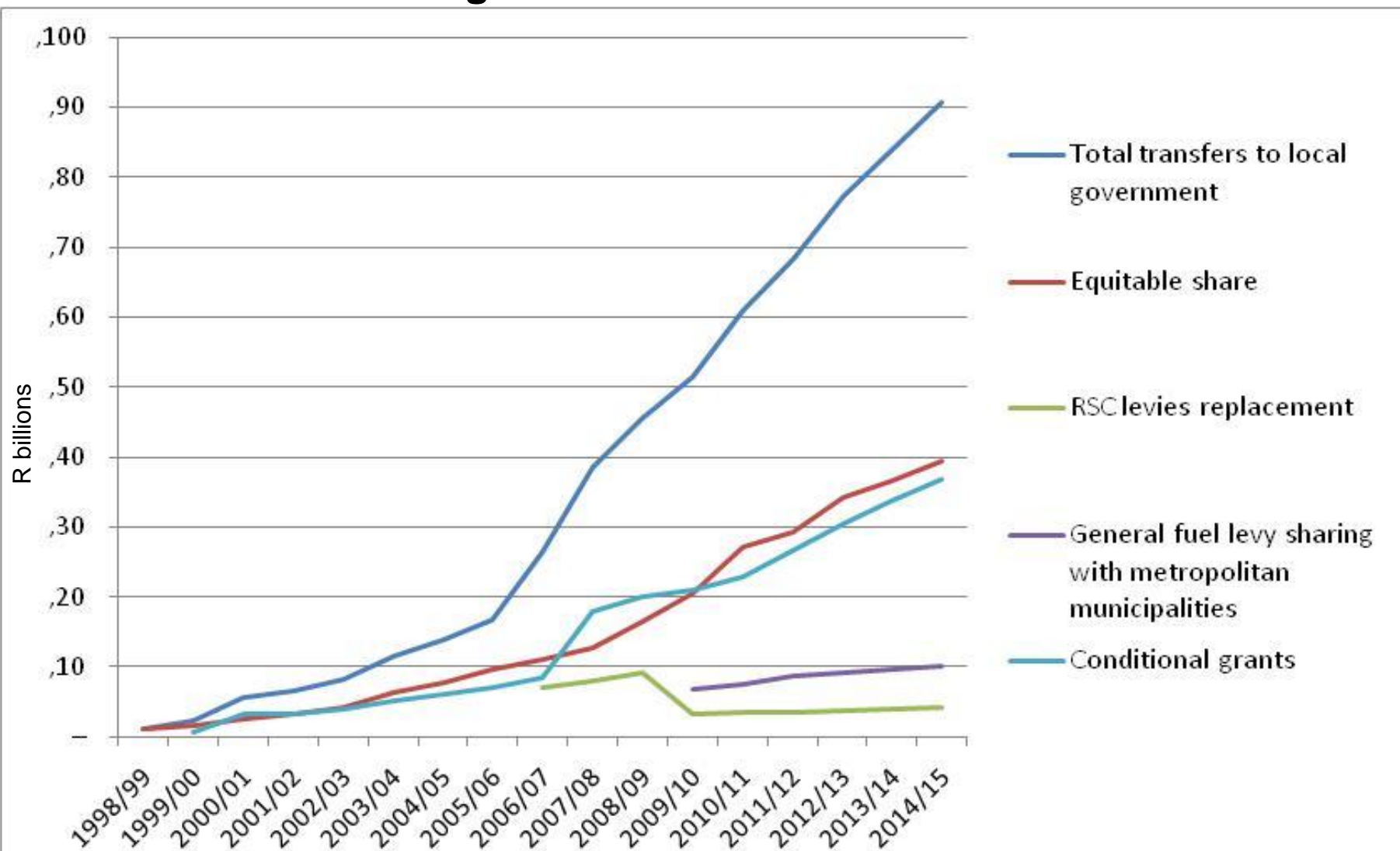
**Table W1.21 Transfers to local government, 2010/11 – 2016/17**

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Revised estimate	Medium-term estimates		
<b>Direct transfers</b>	<b>60 905</b>	<b>68 251</b>	<b>76 430</b>	<b>83 670</b>	<b>90 815</b>	<b>100 047</b>	<b>105 187</b>
<b>Equitable share and related</b>	<b>30 541</b>	<b>33 173</b>	<b>37 139</b>	<b>39 789</b>	<b>44 490</b>	<b>50 208</b>	<b>52 869</b>
Equitable share formula <sup>1</sup>	26 761	29 289	32 747	35 093	39 410	44 895	47 282
RSC levy replacement	3 492	3 544	3 733	3 930	4 146	4 337	4 567
Support for councillor remuneration and ward committees	288	340	659	766	935	976	1 020
<b>General fuel levy sharing with metros</b>	<b>7 542</b>	<b>8 573</b>	<b>9 040</b>	<b>9 613</b>	<b>10 190</b>	<b>10 659</b>	<b>11 224</b>
<b>Conditional grants</b>	<b>22 822</b>	<b>26 505</b>	<b>30 251</b>	<b>34 268</b>	<b>36 135</b>	<b>39 181</b>	<b>41 094</b>
Infrastructure	20 871	24 643	27 923	31 053	32 582	35 324	36 722
Capacity building and other	1 951	1 862	2 329	3 214	3 553	3 857	4 372
<b>Indirect transfers</b>	<b>2 939</b>	<b>2 770</b>	<b>4 956</b>	<b>5 697</b>	<b>7 726</b>	<b>9 467</b>	<b>10 221</b>
Infrastructure	2 682	2 553	4 823	5 558	7 584	9 316	10 062
Capacity building and other	257	217	133	139	142	151	159
<b>Total</b>	<b>63 844</b>	<b>71 021</b>	<b>81 386</b>	<b>89 367</b>	<b>98 541</b>	<b>109 514</b>	<b>115 408</b>



# The value of transfers to local government has increased dramatically since 1998

## Total transfers to local government



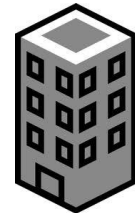
# The local government equitable share

## LGES DELIVERY CHAIN: From formula to services

Formula divides LGES allocation among 278 municipalities (like slicing a R36bn cake)



Formula determines size of each 'slice'



Municipalities determine how funds are used to deliver services to their residents

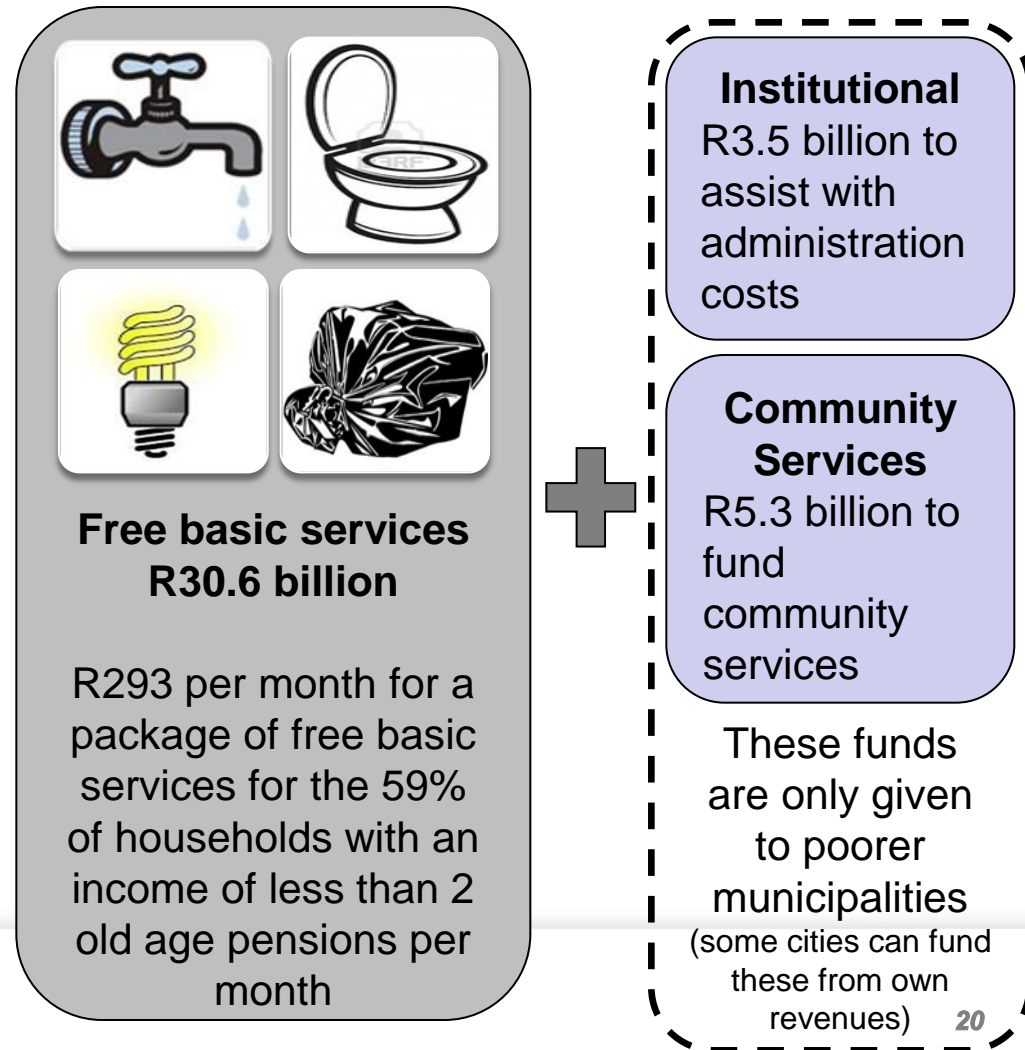


- The LGES is allocated through a formula that has two objectives:
  1. Enable municipalities to provide basic services to poor households
  2. Enable municipalities with limited own resources to afford basic administrative and governance capacity and perform core municipal functions
- Affordability threshold used means that 59% of households are funded for **free basic services**
- New formula introduced in 2013 (following extensive consultation) has a more redistributive structure than previous formula
- Challenge is to ensure that once funds reach municipalities they are used to deliver services that benefit poor households

# How the local government equitable share formula works

- Allocated through a formula to ensure fairness for all 278 municipalities
- The formula is updated annually with cost data to account for price increases and estimates of household growth
- A new LG equitable share formula was introduced in 2013/14 following extensive consultation and is being phased in over 5 years
- The final allocation to each municipality is determined by this formula and the impact of the phase-in and guarantees

## How the local government equitable share formula works



# Local Government Conditional Grants

- 11 direct infrastructure grants to local government in 2014 MTEF amounting to R32.6b in 2014/15
  - Municipal Infrastructure Grant amounts to R14.7b in 2014/15
  - Urban Settlements Development Grant amounts to R10.3b in 2014/15
  - Public Transport Infrastructure Grant amounts to R5b in 2014/15
  - Municipal Water Infrastructure Grant (introduced in 2013/14) amounts to R534m in 2014/15 but increases to R1.4b in 2015/16
- 5 indirect infrastructure grants to local government in 2014 MTEF amounting to R2.9b in 2014/15
- A review of the local government infrastructure grant system currently underway – phased implementation from 2015 MTEF
- 9 direct capacity and other current transfers to local government in 2014 MTEF amounting to R3.6b in 2014/15
- 1 indirect capacity and other current transfers to local government in 2014 MTEF amounting to R142m in 2014/15



# What's contained in the Division of Revenue Bill

- Division of Revenue Bill contains clauses and allocations (schedules)
  1. Equitable division of revenue among 3 spheres of government
  2. Each province's equitable share
  3. Each municipality's equitable share
  4. Supplementary conditional grants to provinces and municipalities
  5. Specific purpose allocations to provinces and municipalities
  6. Grant-in-kind (or indirect) grants to provinces and municipalities
  7. Provision to specifically cater for immediate release of funds to provinces and municipalities for disaster response

This forms part of Act once enacted

- **Explanatory memorandum** (factors used to determine division between national, provincial and LG - S214 of the Constitution; description of division of revenue over MTEF; Government's response to the recommendations of FFC on DoR; detailed description of provincial allocations; detailed description of LG allocations; and issues and research that will inform the division of revenue in future years)

Falls away (but remains on NT website)

- Conditional grant frameworks
- Annexures with allocations per municipality

Given legal force through Gazette i.t.o. s16(1)

# The clauses of the Act

- Clauses of Bill/Act contain the rules governing the transfer and use of DoR funds, including:
  - Setting the dates for the transfer of the provincial equitable share (which is unconditional)
  - Governs payment schedules and rollovers for grants
  - Provide for frameworks to provide rules for conditional grants
  - Give national government powers to withhold, stop and reallocate conditional grants as a means of enforcing conditions
  - Sets out the duties of transferring and receiving officers
  - Stipulates reporting requirements
  - Includes some planning requirements for infrastructure grants
  - Stipulates the different rules that apply to different schedules of grants
- Most of these clauses are ‘standard’ and do not change. Changes are made to include new policy imperatives and for technical refinements
- Clauses of Bill/Act need to be read alongside the conditional grant frameworks of individual grants (contains specific conditions in addition to those contained in the clauses)

# Allocations in the schedules and annexures

- Funds allocated through DoRB are appropriated in
  - schedules of Bill (see pages 29-53 2014 DoRB)
    - allocations to each individual province for their equitable share and conditional grants
    - allocations to each municipality for the equitable share
  - Govt Gazette i.t.o. s16(1) of DoRA
    - Allocations per municipality for conditional grants are detailed in annexures (pages 216-271 of 2014 DoRB). These are gazetted by Minister of Finance 14 days after enactment (schedules only contain the total amount for each LG grant)
    - Appendices (p272 onwards in 2014 DoRB) contain further breakdowns per individual grant per province/municipality

## SCHEDULE 2

### DETERMINATION OF EACH PROVINCE'S EQUITABLE SHARE OF THE PROVINCIAL SPHERE'S SHARE OF REVENUE RAISED NATIONALLY (as a direct charge against the National Revenue Fund)

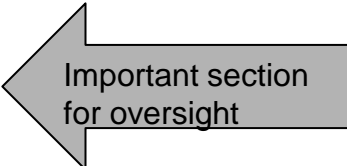
Province	Column A	Column B	
	2014/15 Allocation	Forward Estimates	
		2015/16	2016/17
	R'000	R'000	R'000
Eastern Cape	52 154 185	55 389 093	57 876 235
Free State	20 883 346	22 223 230	23 158 399
Gauteng	68 672 720	74 214 209	80 243 782
KwaZulu-Natal	78 138 477	83 347 554	87 887 479
Limpopo	43 274 194	46 108 942	48 621 896
Mpumalanga	29 354 919	31 448 977	33 727 900
Northern Cape	9 651 945	10 276 650	10 941 191
North West	24 706 979	26 527 825	28 385 986
Western Cape	35 631 310	38 430 982	41 195 947
<b>TOTAL</b>	<b>362 468 075</b>	<b>387 967 462</b>	<b>412 038 815</b>

**Allocations for first year are appropriated in law (once Bill is enacted)**  
 Allocations for 2<sup>nd</sup> and 3<sup>rd</sup> years are indicative only

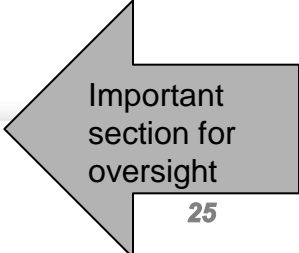


# Conditional grant frameworks

- Each conditional grant has a framework (see pages 106-215) that lists:
  - The Transferring department
  - Strategic goal of the grant
  - Purpose of the grant
  - Outcomes
  - Outputs
  - Priority outcome(s) of government the grant primarily contributes to
  - Details contained in the business plan
  - Conditions (these include rules for how funds may be used)
  - Allocation criteria
  - Reason funds are not incorporated into the equitable share
  - Past performance
  - Projected life of the grant
  - MTEF allocations
  - Responsibilities of transferring national officer and receiving officer
  - Process for approval of business plans for the next financial year



Important section for oversight



Important section for oversight



# Example of a conditional grant framework

<b>Integrated National Electrification Programme (Municipal) Grant</b>	
<b>Transferring department</b>	<ul style="list-style-type: none"> <li>Energy (Vote 29)</li> </ul>
<b>Strategic goal</b>	<ul style="list-style-type: none"> <li>To reduce the backlogs of un-electrified households and funding of bulk infrastructure to ensure constant supply of electricity</li> </ul>
<b>Grant purpose</b>	<ul style="list-style-type: none"> <li>To implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure</li> </ul>
<b>Outcome statements</b>	<ul style="list-style-type: none"> <li>A reduction in household electrification backlogs</li> <li>Universal access to electricity and improvement in distribution infrastructure reliability</li> </ul>
<b>Outputs</b>	<ul style="list-style-type: none"> <li>The number of connections to households per annum</li> <li>The number of bulk infrastructure installations</li> <li>Implementation of labour intensive methods on electrification projects and the number of jobs created</li> </ul>
<b>Priority outcome(s) of government that this grant primarily contributes to</b>	<ul style="list-style-type: none"> <li>Outcome 6: An efficient, competitive and responsive economic infrastructure network</li> <li>Outcome 9: A responsive, accountable, effective and efficient local government system</li> </ul>
<b>Details contained in the business plan</b>	<ul style="list-style-type: none"> <li>Outcome indicators</li> <li>Output indicators</li> <li>Key activities</li> <li>Inputs</li> </ul>
<b>Conditions</b>	<ul style="list-style-type: none"> <li>Adhere to labour intensive construction methods in terms of the Expanded Public Works Programme (EPWP) guidelines for activities such as trenching, and planting of poles</li> <li>Register master plans for bulk infrastructure with INEP and abide by the advice or guidance of the Department of Energy (DoE) regarding the central planning and co-ordination for such bulk infrastructure</li> <li>Use INEP funds for the refurbishment of critical infrastructure, only upon submission of a project plan which must be approved by DoE</li> <li>Utilise own funding if subsidy is insufficient – top-up funding must be available</li> <li>Minimum size of supply of 1.2 KVA, After Diversity Maximum Demand (ADMD), 20 Amp per household connection</li> <li>Municipalities to utilise up to R1.5 million of the total allocation for Service fees (Pre-Engineering and Eskom connection fee) if approved by the Department of Energy in their business plans</li> </ul>
<b>Allocation criteria</b>	<ul style="list-style-type: none"> <li>Allocations are based on applications from licensed municipal distributors and are prioritised on:               <ul style="list-style-type: none"> <li>high backlogs</li> <li>rural bias</li> <li>priority areas - 23 district municipalities</li> <li>number of occupied households for connections projects</li> <li>past performance</li> <li>integration with other programmes such as Urban Renewal Programme, other infrastructure programmes like Breaking New Ground (BNG)</li> <li>the financial, technical and staff capabilities to distribute electricity and expand and maintain the networks</li> <li>consultation with communities in terms of the Integrated Development Plan (IDP) process</li> <li>ensuring that universal access objectives are fast tracked</li> <li>new and upgrading of bulk infrastructure projects related to (i) future electrification and (ii) where distribution network reliability adversely impacts economic activity</li> <li>infrastructure which is in a state of disrepair, unsafe and which prohibits further connections</li> <li>informal settlements where service delivery has been prioritised</li> </ul> </li> </ul>
<b>Reason not incorporated in equitable share</b>	<ul style="list-style-type: none"> <li>This is a specific conditional capital transfer for electrification of households</li> </ul>
<b>Past performance</b>	<p><b>2012/13 audited financial outcome</b></p> <ul style="list-style-type: none"> <li>R1 096 million was allocated and transferred to municipalities with (59 per cent) spent by the end of 2012/13 of which R1 019 million (93 per cent) was spent by the end of the municipal financial year</li> </ul> <p><b>2012/13 service delivery performance</b></p> <ul style="list-style-type: none"> <li>47 204 connections were achieved and 10 substations were completed</li> </ul>
<b>Projected life</b>	<ul style="list-style-type: none"> <li>Grant continues until 2016/17, subject to review</li> </ul>



# Documents available on National Treasury's website

- Intergovernmental transfers are made in terms of the annual Division of Revenue Act, available at:  
[http://www.treasury.gov.za/legislation/bills/2013/bills2013\\_bill02-2013.pdf](http://www.treasury.gov.za/legislation/bills/2013/bills2013_bill02-2013.pdf)
- National budget policy is set out in the annual Budget Review, available at:  
<http://www.treasury.gov.za/documents/national%20budget/2013/review/default.aspx>