2015 Division of Revenue Bill

Joint meeting of the Standing and Select Committees on Appropriations

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Department:
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REPUBLIC OF SOUTH AFRICA

Outline

- Background
- Main developments with respect to the 2015 Budget (provinces and local government) as contained in the 2015 Budget Review
- Responses to the recommendations by the Standing and Select Committees on Appropriations
- 2015 Division of Revenue Bill
  - Changes to 2014 Division of Revenue Act
- Division of Revenue
  - Provincial allocations
  - Local government allocations
- FFC proposals related to division of revenue for 2015/16 and government's responses

Background

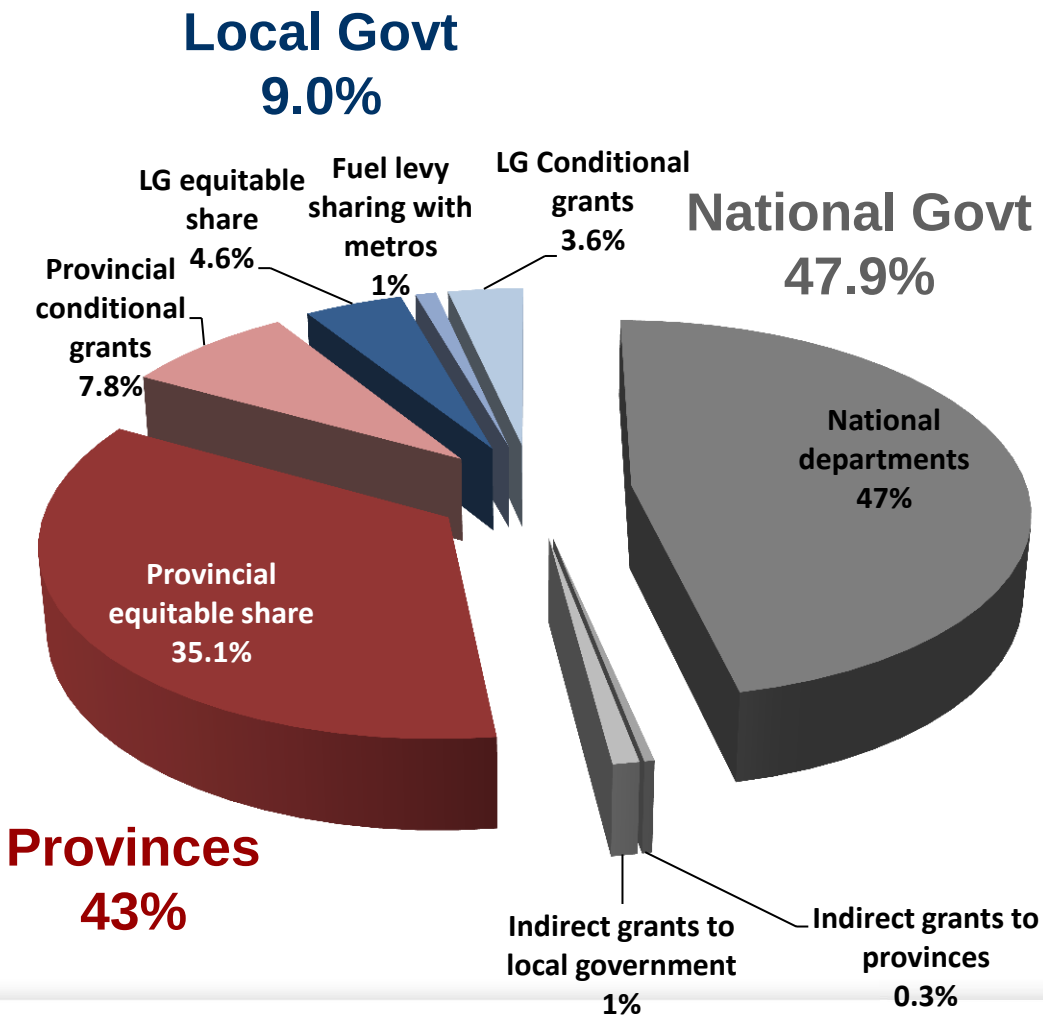
- Annual Division of Revenue (DoR) Bill gives effect to s214(1) of Constitution that requires an equitable division of nationally raised revenue among the 3 spheres, and any other allocations to provinces and municipalities
- A report must accompany budget that explains how recommendations by parliamentary committees on appropriations and the Financial and Fiscal Commission (FFC) on proposed DoR and conditional allocations to provinces and local government are given effect to (or reasons why not)
- FFC submits 10 months before start of financial year recommendations on DoR for coming budget. Government presents its response at tabling of Budget
- In compliance with s9 of Intergovernmental Fiscal Relations Act, national government responses only deal with FFC recommendations directly and indirectly related to section 214 of Constitution
  - All departments and provinces were asked to provide inputs to Government's responses to FFC's recommendations that are directly and indirectly related to DoR
  - FFC recommendations unrelated to DoR are directly replied to by appropriate national line departments

2015 MTEF Division of Revenue

R million	Outcome			Revised estimate	Medium-term estimates		
Division of available funds							
National departments	**389 376**	**420 015**	**453 171**	**491 368**	**522 992**	**553 778**	**586 087**
of which:							
Indirect transfers to provinces	700	2 315	2 693	4 116	3 458	3 596	3 967
Indirect transfers to LG	2 660	4 548	5 523	8 536	10 395	10 634	10 916
Provinces	**355 824**	**380 929**	**410 572**	**439 661**	**468 159**	**496 259**	**526 382**
Equitable share	289 628	310 741	336 495	359 922	382 673	405 265	428 893
Conditional grants	66 197	70 188	74 077	79 739	85 485	90 994	97 490
Local government	**68 251**	**76 430**	**82 836**	**89 076**	**99 753**	**103 936**	**110 017**
Equitable share	33 173	37 139	38 964	43 290	50 208	52 869	55 512
Conditional grants	26 505	30 251	34 258	35 595	38 887	39 844	42 720
General fuel levy sharing with metropolitan municipalities	8 573	9 040	9 613	10 190	10 659	11 224	11 785
Percentage shares							
National departments	*47.9%*	*47.9%*	*47.9%*	*48.2%*	*47.9%*	*48.0%*	*47.9%*
Provinces	*43.7%*	*43.4%*	*43.4%*	*43.1%*	*42.9%*	*43.0%*	*43.1%*
Local government	*8.4%*	*8.7%*	*8.8%*	*8.7%*	*9.1%*	*9.0%*	*9.0%*

Division of revenue for the 2015 MTEF

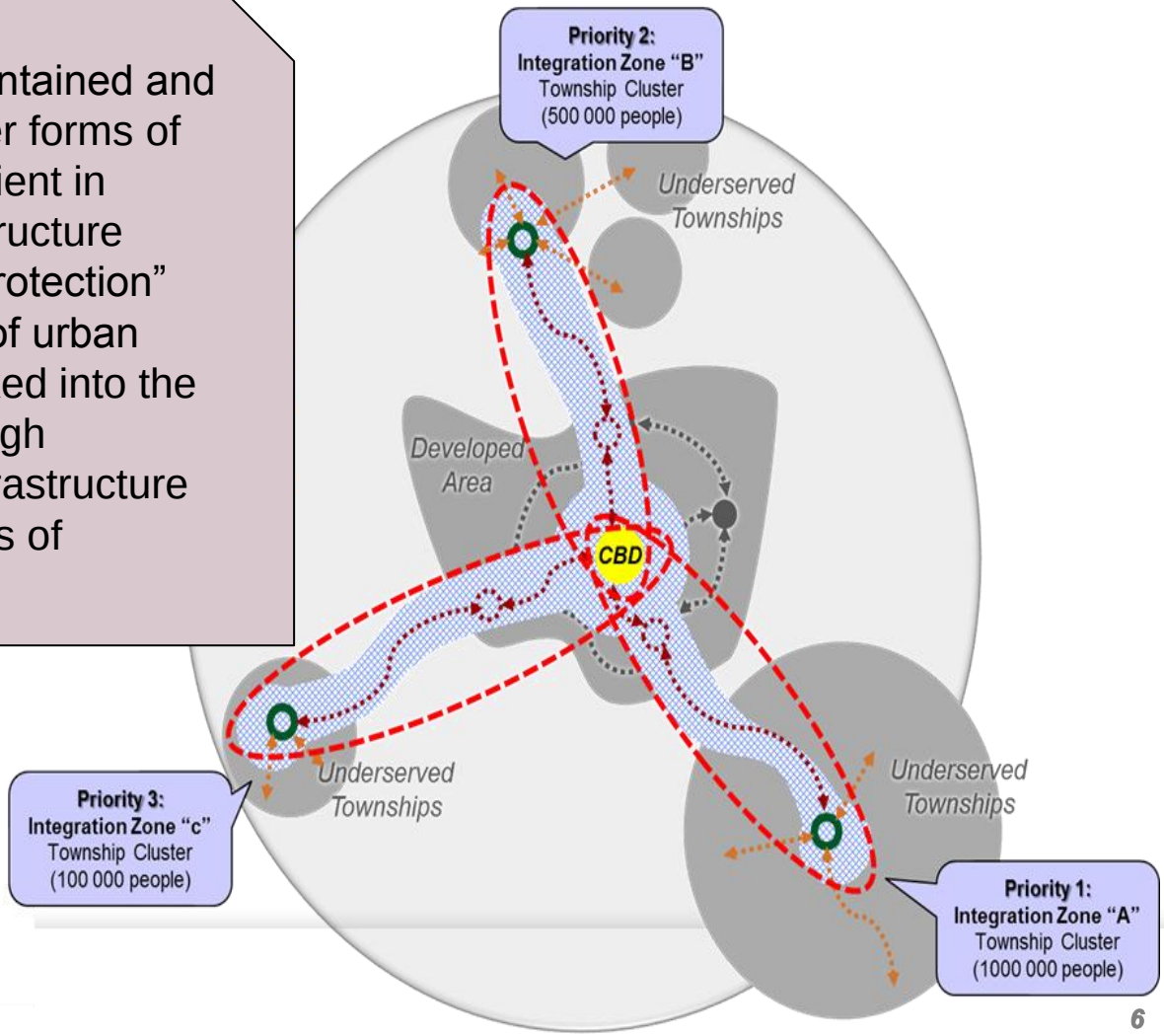
- National fiscal package required a more conservative growth over the 2015 MTEF
  - Reductions mostly on slow spending, non-core and non-performing programmes
  - Some grants targeted at service delivery and infrastructure still show large growth over the MTEF
- Provincial fiscal frameworks largely unchanged, except for functions and funding shifts
- Local government fiscal framework focuses on accelerating infrastructure investment for basic services and reforming the city agenda



A new fiscal package to transform our cities
(1 of 2)

What the NDP says:

- Urban sprawl should be "contained and possibly, reversed as denser forms of development are more efficient in terms of land usage, infrastructure usage and environmental protection"
- "The major concentrations of urban poor should be spatially linked into the mainstream of city life through investments in transport infrastructure and the connecting corridors of development"



A new fiscal package to transform our cities
(2 of 2)

- South African cities continue to be defined by apartheid spatial patterns, with poor residents living in dormitory townships far from opportunities
- The infrastructure investments needed to change the shape of our cities will come from national government (which has increased grant funding tremendously over the last decade) and cities' own revenues, as cities account for the majority of the economy and national tax base
- Measures to support cities to increase their contribution to infrastructure development include:
  - **Modifying the infrastructure grant system** by reducing the number of grants, introducing more flexible grant conditions and increasing the certainty of transfers over a longer time period
  - **Refocusing the Neighbourhood Development Partnership Programme** to support the development of economic hubs in large urban townships
  - **Reforming the system of development charges** to improve fairness and transparency, and reduce delays in infrastructure provision for private land developments.
  - **Reviewing the sustainability of existing own-revenue sources** for metropolitan municipalities
  - **Expanding opportunities for private investment** in municipal infrastructure through the Development Bank of Southern Africa increasing its origination of longer-term loans
  - **Project preparation facility** provided in partnership with DBSA
  - **Infrastructure delivery management system** is being expanded

Responses to Recommendations by Standing and Select Committees on Appropriations

as they relate to the Division of Revenue (provinces and local government)

- Updates to responses provided on the 2014 Division of Revenue Bill to reflect outcomes of 2015 Budget process
- Responses to the 2014 Division of Revenue Amendment Bill and 2014 MTBPS (as contained in Annexure A to the 2015 Budget Review)

Updates to responses on 2014 DoRB – Select Committee on Appropriations (1 of 1)

Committee Recommendation	Minister's Response
Refurbishment of Moloto road	
National Department of Transport should urgently clarify ownership of Moloto Road and ensure funding is made available for its restoration	• **Original Response** - Minister agrees with Committee on urgency to upgrade Moloto Road and has written to Minister of Transport to notify her of this recommendation and also to seek clarity on ownership of road • **Updated as part of the 2015 Budget process** - Moloto road is expected to be transferred to SANRAL to form part of its non-toll portfolio - On the principle that funds follow functions, R1 billion is allocated to the Moloto Project over the 2015 MTEF ♦ Part of this reprioritisation includes a R149 million reduction (-0.04%) to the Provincial Roads Maintenance Grant (PRMG)

SCOA recommendations on 2014 MTBPS (1 of 1)

Committee Recommendation	Minister's Response
Grant for scholar transport	
NT, in consultation with Dept of Basic Education and assistance of FFC, should consider the formulation and development of a conditional grant for the provision of scholar transport	• NT takes note of the recommendation and is engaging with all the relevant stakeholders to evaluate the feasibility of this proposal

SeCOA recommendations on 2014 MTBPS (related to provinces and local government)(1 of 3)

Committee Recommendations	Minister's Response
Improving efficiency in grant spending	
Reduction of grants and reprioritisation of such funds should be used as an interim measure while efforts are made to improve efficiency in grant spending	• NT works with transferring and receiving officers in provinces and municipalities to improve efficiency of grant spending • If funds cannot be spent or used productively, grants are reduced and funds reprioritised • NT has introduced various reforms to provincial and municipal infrastructure grants that incentivise best practices, incl. proper project planning
Matlosana Local Municipality disaster allocation	
NT should expedite its processes so that disaster in Matlosana Local Municipality is funded in 2015/16 Budget	• NT, in collaboration with National Disaster Management Centre, has ensured that eligible projects related to the NW disaster is funded in 2015/16 Budget - R148.5m is ring-fenced ♦ 2015/16: R38.5m within Human Settlements Development Grant ♦ R7.1m within Health Facility Revitalisation Grant ♦ 2015/16, 16/17: R51.4m in both years within Education Infrastructure Grant

SeCOA recommendations on 2014 MTBPS (related to provinces and local government)(2 of 3)

Committee Recommendations	Minister's Response
Improving municipal multi-year planning	
Municipalities should take measures to improve their multi-year planning w.r.t. the municipal infrastructure grant (MIG), as required by grant framework	• The Municipal Infrastructure Support Agency (MISA) of the Dept. of Cooperative Governance (DCoG) provides technical assistance to rural and low-capacity municipalities on multi-year planning for MIG • NT and DCoG will continue in 2015 with review of local government infrastructure grant system, which will include focusing on improved municipal planning. Changes to system may be announced in 2016 Budget

SeCOA recommendations on 2014 MTBPS (related to provinces and local government)(3 of 3)

Committee Recommendations	Minister's Response
Implementing cost-containment measures in provinces and municipalities	
NT will have to assist provinces and municipalities to implement cost-containment proposals	• **Provinces** - NT implemented cost-containment measures in provinces since 2010/11 - Since 2012/13 focus is on containing growth in compensation expenditure (historical overspending in most provinces have now been reversed (see 2014 MTBPS) - NT scrutinises implementation of these measures during annual benchmarking and mid-year budget performance engagements - MECs for Finance monitor containment of non-core spending - NT publishes expenditure info per province each quarter - Compliance will be audited by OAG from 2014/15 financial year • **Municipalities** - NT Budget Circulars require municipalities to take into account cost-containment measures when preparing their annual budgets - NT and provincial treasuries scrutinise implementation of these measures during annual benchmarking and mid-year budget performance engagements - In-year expenditure reports submitted quarterly to Parliament - Municipal Regulation on Standard Chart of Accounts

SeCOA recommendations on 2014 Division of Revenue Amendment Bill (1 of 3)

Committee Recommendations	Minister's Response
Project management capacity in municipalities	
Weaknesses in project planning, project management and implementation, and procurement processes, be addressed to avoid unnecessary rollovers	• Built environment performance plans for metros introduced to improve municipal project planning, support grant alignment and spatial transformation • Integrated City Development Grant introduced performance incentives for better planning • Review of LG infrastructure grants system aims to build more incentives into grants to improve performance
Planning for maintenance in municipalities	
Organs of state be encouraged to properly plan for maintenance and repair of their assets to avoid unnecessary expenditure	• Municipalities advised since 2011/12 to allocate at least 8% of capital budget towards repair and maintenance of revenue-generating assets • Equitable share includes provision for maintenance • NT developing costing methodology guideline for LG – will assist municipalities to identify costs related to the rendering of a service

SeCOA recommendations on 2014 Division of Revenue Amendment Bill (2 of 3)

Committee Recommendations	Minister's Response
Collaboration in provision of infrastructure assistance to municipalities	
To avoid duplication, NT, DCoG and SALGA should ensure collaboration with DBSA and MISA when providing infrastructure assistance to municipalities	• NT and DCoG are implementing various initiatives to promote collaborative municipal support (working protocol being developed) • NT has initiated engagements with DBSA to explore options for supporting municipalities in providing infrastructure
Strengthening compliance	
NT should consider strengthening compliance with its regulations and ensure that municipalities plan their projects multi-year	• NT provides regular training to municipalities and provincial treasuries to strengthen compliance with regulations • Municipal Budget and Reporting Regulations support multi-year financial planning • NT, in collaboration with provincial treasuries, developing province specific strategies to strengthen their capacity to replicate NT municipal benchmarking and mid-year performance assessments in their provinces

SeCOA recommendations on 2014 Division of Revenue Amendment Bill (3 of 3)

Committee Recommendations	Minister's Response
Determining the allocation of grants	
Capacity to spend should be a determining factor when grants are designed and introduced to avoid underspending that might lead to unnecessary conversion of grants at a later stage	• NT agrees that capacity to spend is a key factor in allocating funding and designing grant mechanisms • Indirect grants are a temporary measure whilst provinces and municipalities are building requisite capacity • Conversions (in-year and subsequent budgets) done from indirect grant to direct grant once a province or municipality has demonstrated ability to implement projects on its own

Layout and changes to the clauses of the 2015 Division of Revenue Bill

Layout of the 2015 DORB

- **Division of Revenue Bill – 39 sections and 7 Schedules**
  1. **Equitable division of revenue among 3 spheres of government**
  2. **Determination of each province's equitable share (direct charge against National Revenue Fund)**
  3. **Determination of 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

Falls away (but remains on NT website)

- Conditional grant frameworks
- Annexures with allocations per municipality
- Appendixes

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

2015 Division of revenue Bill Clauses (1 of 2)

- The clauses of the Division of Revenue Bill (DoRB) set the rules for transfers to provinces and municipalities
- Draft 2015 DoRB was circulated 3 times to national departments, provinces, organised local government and FFC
- A large part of the DoRB remains the same annually. Revisions mainly take account of specific policy adjustments. In 2015 these include:
  - *Implementing reforms for better planning in provinces* - Reforms were introduced in the Division of Revenue Act, 2013, to institutionalise a two-year planning process for health and education. In the 2015 Bill, planning requirements are extended to the Provincial Roads Maintenance Grant
  - *Promoting more integrated cities* – The Built Environment Performance Plans (BEPP), a tool used by metros to plan infrastructure investments, now required to show planned expenditure in cities' integration zones over the MTEF and commit to increase investments in these zones

2015 Division of revenue Bill Clauses (2 of 2)

- *Devolution of functions* – The process for assignment of the housing function is now held in abeyance, so section 17 rules have been amended to generally apply to any function assigned from a province to a municipality
- *Flexibility in disaster funding* – Allow provincial disaster grant funds to be used for municipal disaster relief if municipal funds have been exhausted, and vice versa
- *Ensuring fair and consistent grant rules and allocations* – Enable National Treasury to amend final conditional grant frameworks and allocations, after consulting national departments, in order to ensure equitable and stable allocations and fair and consistent grant conditions
- Several technical refinements have also been made to the drafting of the Bill to clarify responsibilities and reporting requirements among others

Provincial Budget Framework for the 2015 MTEF

Total transfers to provinces for 2015/16

Total transfers to provinces, 2015/16

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	54 312	10 060	**64 372**
Free State	21 757	6 609	**28 367**
Gauteng	73 413	17 123	**90 537**
KwaZulu-Natal	82 254	16 881	**99 135**
Limpopo	45 377	6 742	**52 120**
Mpumalanga	31 030	6 851	**37 881**
Northern Cape	10 138	3 665	**13 803**
North West	26 151	6 942	**33 093**
Western Cape	38 242	10 507	**48 749**
Unallocated	–	103	**103**
Total	**382 673**	**85 485**	**468 159**

Source: National Treasury

Changes to equitable share in 2015/16

- Baseline reductions of R2.6b in 2015/16
  - Average annual growth rate is 6% over MTEF
- Function shifts for FET Colleges and port health mean R2.3b shifted to national govt.
- Change in funding for National Health Laboratory Services sees a reduction of R330m

Changes to conditional grants in 2015/6

- Baseline reduction of R1.5b on direct grants and R257m on indirect grants
  - Allocations still grow at a robust annual average rate of 6.9% over MTEF (growth in priority grants exceed 12% p.a.)
- FET Colleges Conditional Grants phased out and R2.8b shifted to national govt.
- Moloto Road responsibility: R149m reprioritised from provincial government to SANRAL's non toll portfolio
- Disaster funding ringfenced in agriculture, health, education, human settlements and roads grants
- New *Maths Science and Technology Grant* resulted from merged *Dinaledi Schools and Technical Secondary School Grants*
- Provinces will begin to receive performance-based allocations for health and education infrastructure, incentivising improved performance

Provincial equitable share (1 of 3)

- Provincial Equitable Share formula for 2015 MTEF updated with data from 2014 mid-year estimates; 2014 School Realities Survey (SNAP survey); people without medical insurance from 2012 General Household Survey (GHS); and output data from the health sector

Table W1.13 Distributing the equitable shares by province, 2015 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
	48%	**27%**	**16%**	**3%**	**1%**	**5%**	**100%**
Eastern Cape	15.1%	13.5%	12.6%	16.2%	7.5%	11.1%	14.0%
Free State	5.3%	5.4%	5.2%	5.3%	5.2%	11.1%	5.6%
Gauteng	17.7%	21.4%	23.9%	17.1%	34.7%	11.1%	19.5%
Kw aZulu-Natal	22.5%	21.8%	19.8%	22.2%	15.8%	11.1%	21.3%
Limpopo	13.0%	10.4%	10.4%	13.6%	7.1%	11.1%	11.8%
Mpumalanga	8.5%	7.3%	7.8%	9.2%	7.1%	11.1%	8.2%
Northern Cape	2.3%	2.1%	2.2%	2.2%	2.2%	11.1%	2.7%
North West	6.5%	6.7%	6.8%	8.1%	6.4%	11.1%	6.9%
Western Cape	9.0%	11.3%	11.3%	6.1%	14.0%	11.1%	10.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury

Provincial equitable share (2 of 3)

- Changes as a result of data updates are much smaller than last year when formula was updated with Census 2011 data
- Phase-in refined as part of 2015 Budget to ensure a smoother transition from a province's "proportion" share in current financial year (2015/16) to new share over the next MTEF (i.e. 2015/16 to 2017/18)
- Cushioning extended till 2016/17

Table W1.10 Implementation of the equitable share weights, 2015/16 – 2017/18

Percentage	2015/16 Indicative weighted shares from 2014 MTEF	2015/16	2016/17	2017/18
		2015 MTEF weighted shares 3-year phasing		
Eastern Cape	14.2%	14.1%	14.1%	14.0%
Free State	5.7%	5.7%	5.6%	5.6%
Gauteng	19.3%	19.3%	19.4%	19.5%
KwaZulu-Natal	21.4%	21.4%	21.3%	21.3%
Limpopo	11.9%	11.8%	11.8%	11.8%
Mpumalanga	8.2%	8.2%	8.2%	8.2%
Northern Cape	2.7%	2.7%	2.7%	2.7%
North West	6.9%	6.9%	6.9%	6.9%
Western Cape	9.9%	10.0%	10.0%	10.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury

Provincial equitable share (3 of 3)

- Key trends in equitable share data updates
  - Education Component (48%)
    - Learner numbers increased from 12.4m in 2013 to 12.6m in 2014. GT recorded highest increase of learners (61 891), followed by WC and NW
  - Health Component (27%)
    - 3 components inform Health Share (Risk Adjustment 75% weighting, Hospital 20% and Primary Health Care 5%). Increased shares to WC, EC and MP
  - Basic Component (16%)
    - Population driven (mid-year population estimates). Increased shares to EC, KZN and MP
  - Poverty Component (3%)
    - Increased shares to EC, KZN, MP and NW
  - Economic Activity Component (1%)
    - Increased shares to GT, KZN and MP
  - Institutional Component (5%) – equally divided among provinces
  - Full impact
    - EC (-0.01%), FS (0.00%), GT (0.04%), KZN (-0.06%), LP (-0.04%), MP (0.01%), NC (0.00%), NW (0.00%) and WC (0.06%)

Provincial allocations for 2015 MTEF

R million	2014/15	2015/16	2016/17	2017/18	MTEF total
Direct conditional grants					
Comprehensive agricultural support programme	1 861	1 651	1 702	1 809	5 162
Ilima/Letsema projects	461	471	491	522	1 484
Community library services	1 016	1 311	1 367	1 453	4 131
Education infrastructure	7 327	9 518	9 774	10 331	29 622
HIV and AIDS (life skills education)	212	221	231	245	697
Maths, science and technology	319	347	362	385	1 095
National school nutrition programme	5 462	5 704	6 006	6 306	18 016
Provincial disaster	197	103	112	123	338
Comprehensive HIV and AIDS	12 102	13 737	15 467	17 440	46 644
Health facility revitalisation	5 502	5 276	5 473	5 817	16 565
Health professions training and development	2 322	2 375	2 477	2 632	7 483
National tertiary services	10 168	10 398	10 847	11 526	32 771
National health insurance	70	72	75	80	228
Human settlements development	17 084	18 203	19 884	21 060	59 147
EPWP integrated grant for provinces	349	351	402	424	1 176
Social sector EPWP incentive for provinces	258	241	360	386	986
Mass participation and sport development	526	537	561	596	1 694
Provincial roads maintenance	9 361	9 851	10 138	10 808	30 797
Public transport operations	4 833	4 939	5 150	5 473	15 563
Other direct grants	310	181	117	74	372
Total direct conditional grants	**79 739**	**85 485**	**90 994**	**97 490**	**273 970**
Indirect transfers	**4 116**	**3 458**	**3 596**	**3 967**	**11 021**
School infrastructure backlogs	2 541	2 047	2 375	2 620	7 042
National health	1 575	1 411	1 221	1 347	3 979

Local Government Budget Framework for the 2015 MTEF

Local government (LG) budget framework

Table W1.24 Transfers to local government, 2011/12 – 2017/18

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Outcome			Revised estimate	Medium-term estimates		
Direct transfers	**68 251**	**76 430**	**82 836**	**89 076**	**99 753**	**103 936**	**110 017**
Equitable share and related	**33 173**	**37 139**	**38 964**	**43 290**	**50 208**	**52 869**	**55 512**
Equitable share formula[1]	29 289	32 747	34 268	38 210	45 052	47 419	49 794
RSC levy replacement	3 544	3 733	3 930	4 146	4 337	4 567	4 795
Support for councillor remuneration and ward committees	340	659	766	935	819	883	923
General fuel levy sharing	**8 573**	**9 040**	**9 613**	**10 190**	**10 659**	**11 224**	**11 785**
Conditional grants	**26 505**	**30 251**	**34 258**	**35 595**	**38 887**	**39 844**	**42 720**
Infrastructure	24 643	27 923	31 991	33 345	36 440	37 254	39 911
Capacity building and other	1 862	2 329	2 267	2 250	2 447	2 590	2 809
Indirect transfers	**2 660**	**4 548**	**5 523**	**8 536**	**10 395**	**10 634**	**10 916**
Infrastructure	2 541	4 548	5 523	8 536	10 395	10 634	10 916
Capacity building and other	119	–	–	–	–	–	–
Total	**70 911**	**80 978**	**88 359**	**97 612**	**110 149**	**114 570**	**120 933**

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After baseline reductions of R921m to LG conditional grants, LG allocated R345.7b over MTEF

How the local government equitable share formula works

- Allocated through a formula to ensure fairness for all 278 municipalities
- A new LG equitable share formula was introduced in 2013/14 following extensive consultation and is being phased in over 5 years
- The formula is updated annually with:
  - cost data to account for price increases
  - estimates of household growth
- 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

Free basic services
R33.8 billion

R314 per month for a package of free basic services for the 59% of SA households with an income of less than 2 old age pensions per month

Institutional
R4.5 billion to assist with administration costs

Community Services
R6.8 billion to fund community services

These funds are only allocated to poorer municipalities
(some cities can fund these from own revenues)

Updates to the local government equitable share formula for the 2015 MTEF

- No baseline reduction was made on the LG equitable share
- Additions made in the 2013 Budget mean there is strong growth in the LGES in 2015/16
- Above inflation increases in the bulk costs of electricity and water have been fully funded
- New formula will be fully phased-in by 2017/18
- During 2015, the formula will be updated to reflect the new municipal boundaries due to come into effect in 2016

Changes to infrastructure conditional grants in 2015 MTEF

R million	2015/16	2016/17	2017/18
	Medium-term estimates		
Direct transfers	**36 440**	**37 254**	**39 911**
Municipal infrastructure	14 956	15 548	16 435
Municipal water infrastructure	1 804	1 186	1 773
Urban settlements development	10 554	11 076	11 708
Integrated national electrification programme	1 980	2 036	2 197
Public transport network	5 953	6 163	6 610
Neighbourhood development partnership	607	624	663
Integrated city development	251	267	292
Rural roads asset management systems	97	102	107
Rural households infrastructure	48	113	124
Municipal disaster recovery	189	140	–
Indirect transfers	**10 395**	**10 634**	**10 916**
Integrated national electrification programme	3 613	3 776	3 946
Neighbourhood development partnership	26	22	28
Regional bulk infrastructure	4 922	5 324	4 855
Municipal water infrastructure	792	1 512	2 087
Bucket eradication programme	975	–	–
Rural households infrastructure	67	–	–
Total	**46 835**	**47 888**	**50 826**

- R2.4b added for water and sanitation infrastructure over MTEF
  - MWIG grows by average of 52% p.a. over MTEF because of additions in previous MTEFs
  - Shift of R500m from indirect to direct MWIG in 15/16
- Bucket Eradication Programme Grant now managed by Dept of Water and Sanitation
  - 2 year indirect grant to eradicate bucket system in formal areas ends in 2015/16
  - Sanitation upgrading funding allocated through other grants (USDG and MIG) over MTEF

Changes to infrastructure grants – Outcomes of first phase of review: 2015 MTEF

- First phase of collaborative review of LG infrastructure grant system identified need for reform:
  - Rationalise number of grants with greater differentiation for different types of municipalities
  - Life-cycle asset management to sustain functionality of infrastructure
  - Strengthen administrative oversight
- Outcomes of review implemented over 2015 MTEF:
  - Two **public transport grants to cities merged** to form Public Transport Network Grant to provide greater certainty to cities over future allocations and more flexibility over how they are used
  - Municipal Infrastructure Grant rules changed to allow for refurbishment and replacement of infrastructure (if assets have been maintained)
  - Further changes to reduce number of grants and improve efficiency will be made in 2016
- Further reforms will be implemented in 2016 MTEF

Changes to capacity building and other current conditional grants in 2015 MTEF

Capacity building and other current grants to LG

R million	2015/16	2016/17	2017/18
	Medium-term estimates		
Direct transfers	**2 447**	**2 590**	**2 809**
Municipal systems improvement	251	259	279
LG financial management	452	465	502
Municipal human settlements capacity	100	100	115
Water services operating subsidy	453	466	502
EPWP integrated grant for municipalities	588	664	716
Infrastructure skills development	124	130	141
Energy efficiency and demand-side management	178	186	203
Municipal demarcation transition	39	50	50
Municipal disaster	261	270	300
Total	**2 447**	**2 590**	**2 809**

- R307m added for disaster recovery
- New Municipal Demarcation Transition Grant introduced for 21 municipalities
  - Only subsidises **administrative costs** directly linked to mergers (infrastructure and basic services funded through equitable share and grants)
  - Only for **3 years** (as per FFC recommendation)
  - Benefits of mergers (over medium to long term) should also be taken into account.
  - Cities will be able to fund some costs from their own revenues
  - Further proposed demarcations will have to be confirmed as approved by the MDB before any further allocations are considered.

Correction of an error in draft allocations to municipalities

- The Annexures to the Bill set out the draft allocations per municipality that will be gazetted in terms of s16(1) of the Division of Revenue Act, 2015, once it is enacted
- The National Disaster Management Centre (NDMC) has identified an error in the draft allocations for the *Municipal Disaster Recovery Grant* for 2015/16:
  - Part of the funding allocated to Umjindi Local Municipality should instead have been allocated to Bushbuckridge Local Municipality (page 240 of Bill)
  - This error was made by the consultants hired to verify the scale of disaster damage. These consultants submitted the wrong information to the NDMC who in turn submitted the incorrect allocation to National Treasury
- The NDMC are checking the exact amounts involved and are expected to write to National Treasury to request that these allocations be corrected before the allocations per municipality are gazetted
- If verification completed in time, Parliament can be advised of the correct allocations (and corrected as part of s16(1) process). If not, National Treasury will then request Parliament to consider and recommend that such a correction be made in line with the process contemplated in s16(2) of the Act

Government's Response to Recommendations of Financial and Fiscal Commission on 2015/16 Division of Revenue

Draft responses to FFC's recommendations directly and indirectly related to the division of revenue (1 of 6)

Chapter 2: Public Debt Challenges and the Need for Fiscal Reforms

FFC Recommendation	Draft government response
Using cost-cutting as an opportunity for reform	**Agree** • Government has carefully reviewed current expenditure trends and identified spending reductions on non-essential items • Major poverty reduction and job creation programmes are protected
Avoid expenditure ceilings as a means of debt control	**Agree on approach to reductions** • Expenditure ceiling announced in 2012 Budget an important policy tool to close structural budget deficit over medium term • Government agrees across-the-board cuts is inappropriate. Spending on priority areas is maintained and poorly managed programmes are rationalised

Draft responses to FFC's recommendations directly and indirectly related to the division of revenue (2 of 6)

Chapter 4: Equitable Resourcing of Schools for Better Outcomes

FFC Recommendation	Draft government response
Education infrastructure grants to include expenditure targets, timelines and provision for transferring of assets	**Agree** • A project list was established and projects are at various stages of implementation. Basing projects on school quintiles could delay targets • Timelines are stipulated. Minimum norms and standards were published in 2013 and provinces have until 2016 to comply • Risk mitigated as prior to a school projects being completed, notification needed to the Provincial Education Department to inform of asset transfer

Draft responses to FFC's recommendations directly and indirectly related to the division of revenue (3 of 6)

Chapter 5: Adequacy and Efficiency in Primary Health Care Financing

FFC Recommendation	Draft government response
Increased Primary Health Care allocation levels in line with norms and standards	**Agree – further work needed** • Government welcomes suggestion but updated norms and standards are required prior to funding reallocation • Government taking steps to improve PHC clinics through the 'ideal clinic' initiative, and health funding is being aligned to this • NHI reforms will result in new approaches to PHC. Government continues to commit funds like indirect *national health grant* (NHI component) for test contracting with health professionals in the 10 NHI pilot districts

Draft responses to FFC's recommendations directly and indirectly related to the division of revenue (4 of 6)

Chapter 6: Impact of Fiscal Expenditure on Food Security

FFC Recommendation	Draft government response
Better enforcement of agricultural grant conditions	**Agree** Government has initiated an evaluation of agricultural conditional grants. Outcomes of review will be used as a basis to inform potential grant changes
Reviewing agricultural grants	**Agree** Discussions have begun between the Departments of Agriculture and Forestry, Rural Development and Land Reform, and National Treasury to streamline overlaps that exist in grants to provinces

Draft responses to FFC's recommendations directly and indirectly related to the division of revenue (5 of 6)

Chapter 8: Improving Public Transport For Better Mobility

FFC Recommendation	Draft government response
Develop a Transport Subsidy Framework to better integrate funding	**Agree** • Reforms introduced in 2015 Division of Revenue Bill: ○ 2 municipal public transport grants consolidated and framework for new *public transport network grant* includes a commitment to develop a draft public transport subsidy framework ○ City Support Programme in National Treasury assists Department of Transport
Provide a transitional demarcation grant to affected municipalities	• Government introduced a transitional demarcation grant in preparation for 2016 municipal redemarcations • FFC and SALGA assisted with costing of this grant • To ensure efficiency and equity, only demarcation costs compliant with set principles are funded