Provincial and Local Government Equitable Share Formulas

National Council of Provinces: Select Committee on Appropriations

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Overview

- Background
  - Constitutional basis
  - Division of revenue
  - Structure of provincial and local government fiscal frameworks
- Provincial equitable share formula
  - Detail on how the formula functions
- Local government equitable share formula
  - Detail on how the formula functions

The structures of the provincial and local government equitable share formulas are described in detail in Annexure W1 to the Division of Revenue Bill and the Budget Review. Available at: www.treasury.gov.za

Constitutional basis for the equitable shares
(1 of 2)

- Section 227 of the Constitution stipulates that:

  "Local government and each province is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it."

- The Equitable Shares are unconditional in nature. Only mandatory budget conditions set by PFMA and other legislation apply
- Formulas are used to divide the provincial equitable share among the 9 provinces and local government equitable share among the 278 municipalities to ensure that allocations are based on objective data and cannot be influenced by bias (like slicing a cake)

It is up to the province/ municipality how resources are used to deliver services

Constitutional basis for the equitable shares
(2 of 2)

S214(1) of the Constitution reads as follows:

An Act of Parliament must provide for –

Vertical division

(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of govt

Horizontal division

(b) the determination of each provinces' equitable share of the provincial share of that revenue

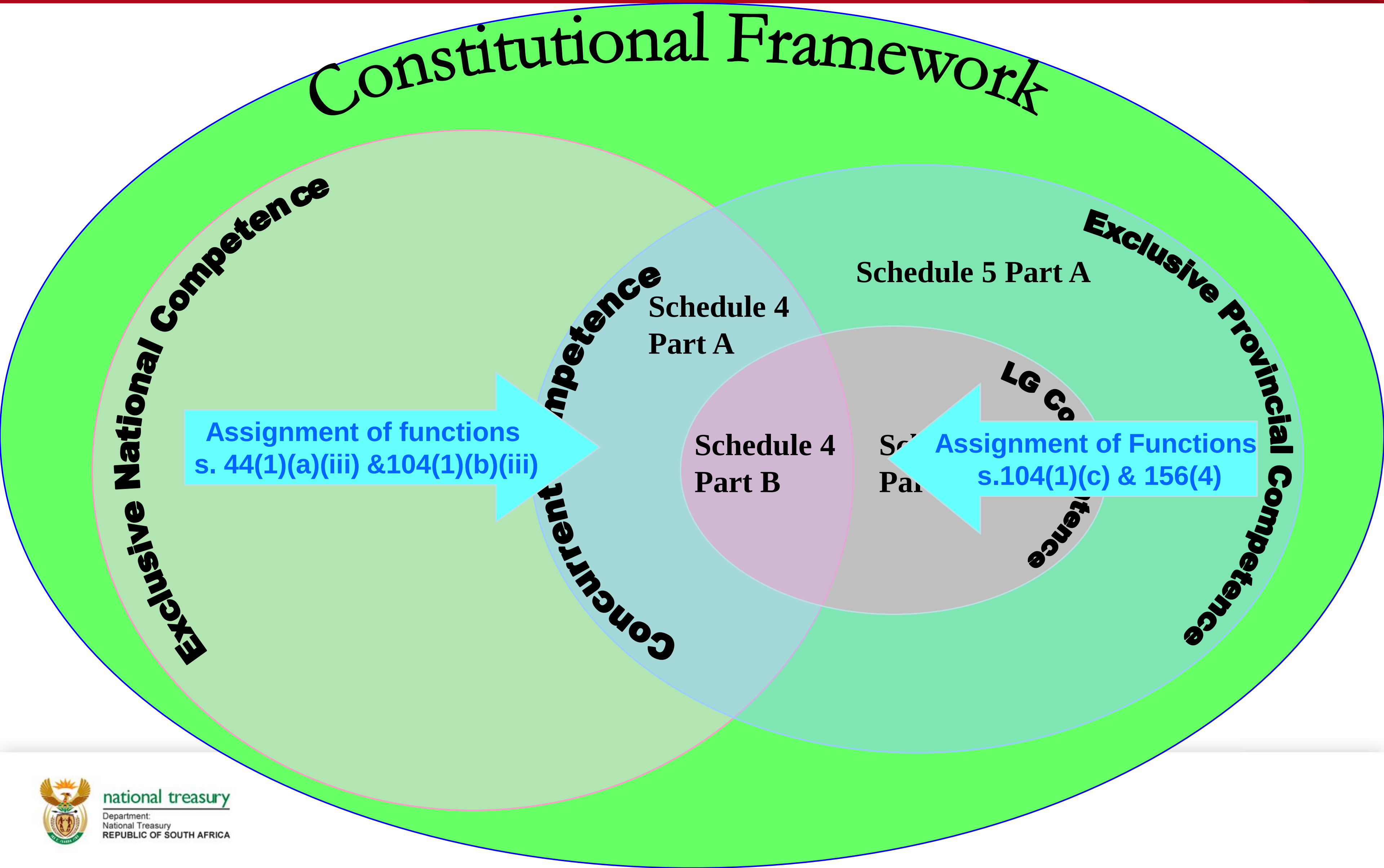
Conditional grants

(c) any other allocation to provinces, LG or municipalities from NG's share, and any conditions on which those allocations may be made

Section 214 also sets out the factors that must be taken into account when determining the division of revenue:

a) the national interest
b) the national debt and other national obligations
c) the needs and interests of the national government
d) ensure provinces and municipalities are able to provide basic services and perform the functions allocated to them;
e) fiscal capacity and efficiency;
f) developmental and other needs;
g) economic disparities within and among the provinces;
h) obligations in terms of national legislation;
i) the desirability of stable and predictable allocations
j) the need for flexibility in responding to emergencies

Allocation of funds is based on the functions assigned to the different spheres of government



How the Division of Revenue is determined

The share of national revenue allocated to each sphere is based on…

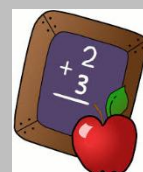
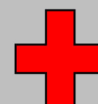
1. The functions performed by the spheres (as set out in the Constitution):

National departments



Police and justice, higher education, social grants

Provincial governments

Basic education, health, social development

Municipalities




Basic services (water, sanitation, electricity, refuse removal)

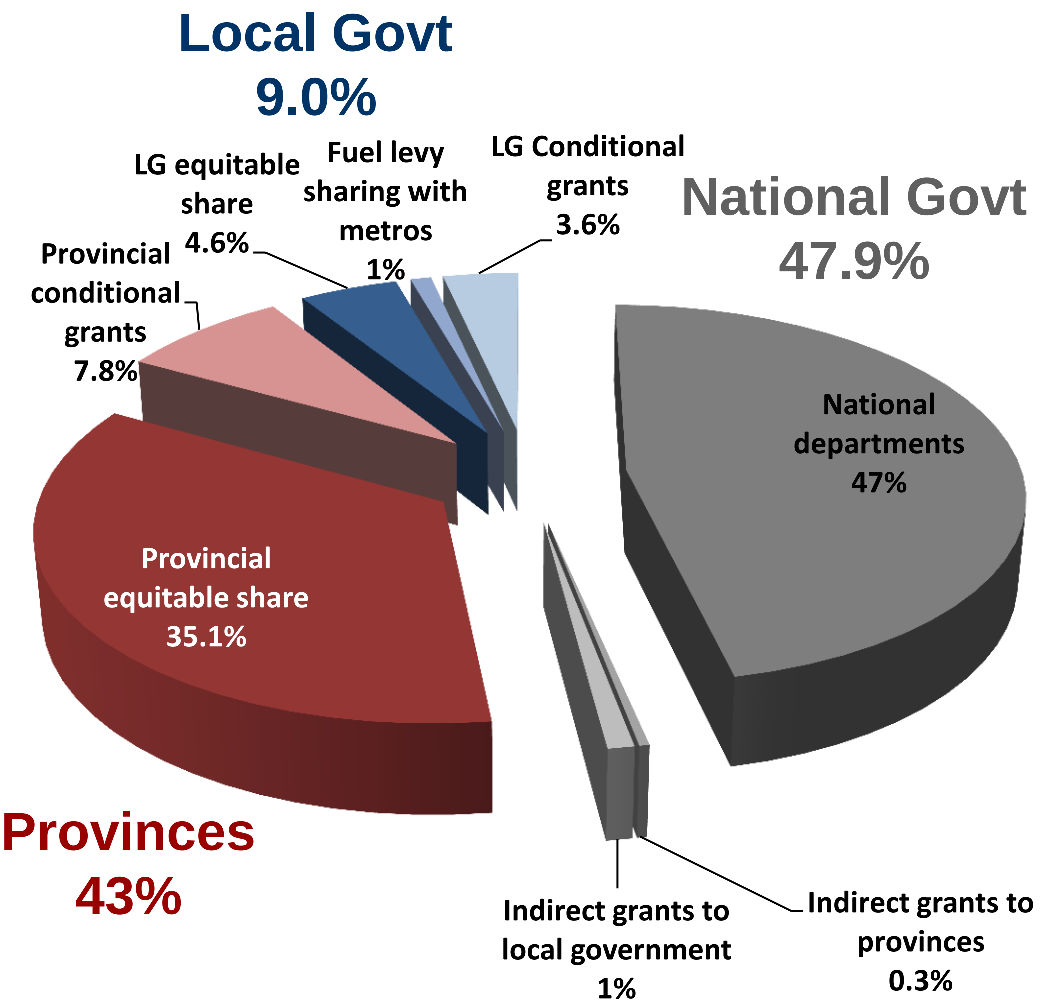
2. Other sources of revenue available to fund these functions:

National departments	Provincial governments	Municipalities
Fully funded from national revenue	Limited other revenue (vehicle and gambling licenses)	Substantial other revenue (Property rates, service charges)

3. The total national revenue available (from tax receipts and borrowing)

- SA’s tax revenue in 2015/16 is projected at R1.2 trillion (28.4% of GDP)
- SA’s borrowing in 2015/16 will be R162.2 billion (3.9% of GDP)
- There is never enough funding to do everything we want to

Division of Revenue for the 2015 MTEF

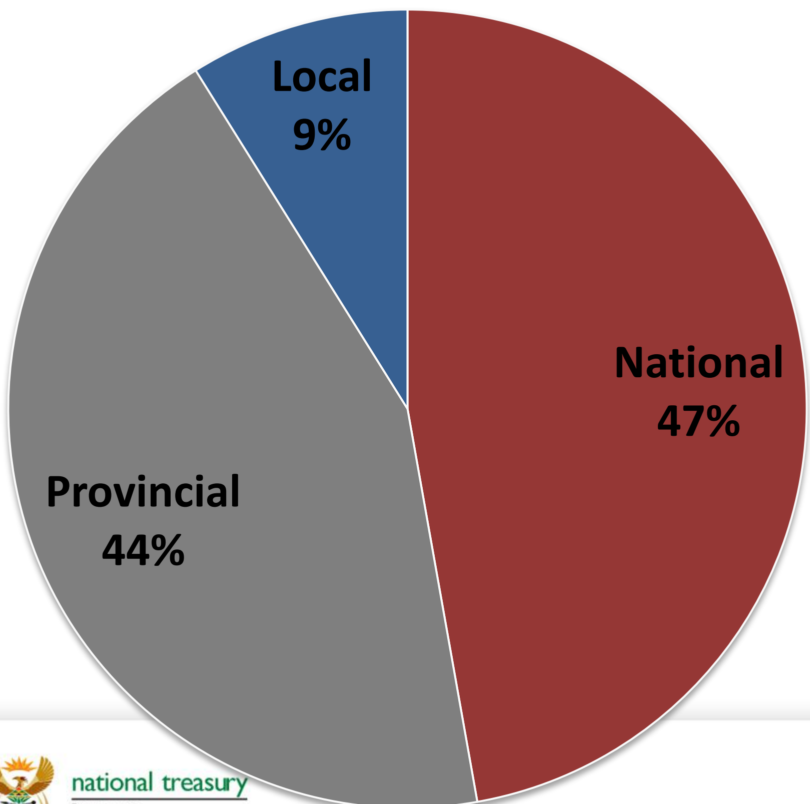


When indirect grants are added the provincial share increases to 43.3% and local government's share increases to 10%

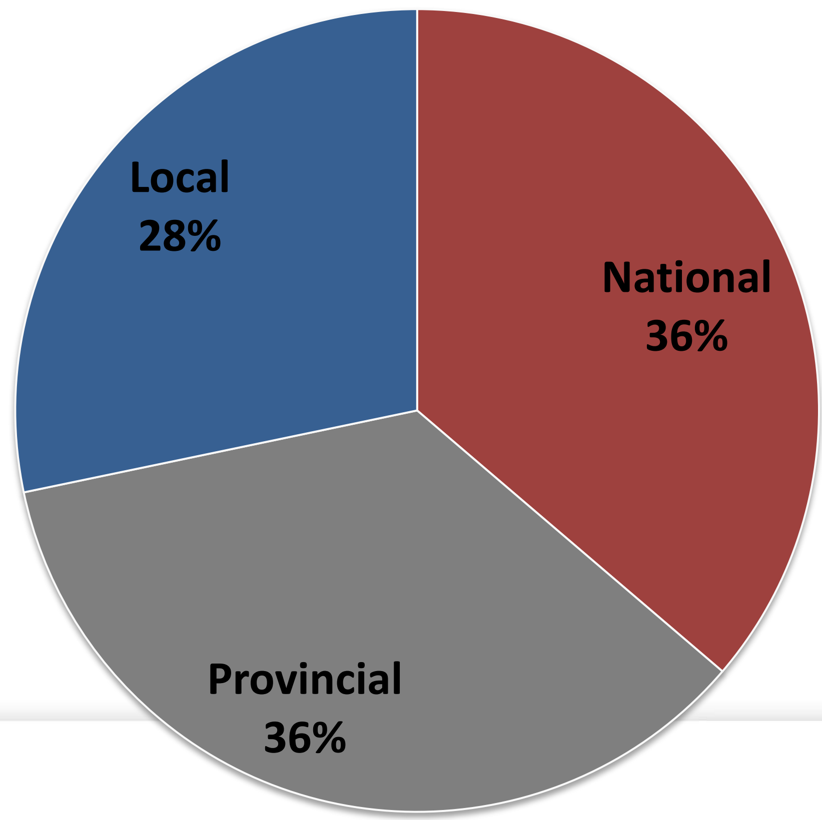
Division of All Revenues

- Division of Revenue looks very uneven if only nationally raised revenues are considered. When revenues raised by all spheres are included it looks much more balanced.

Division of nationally raised revenue



Estimated division of revenue when revenues raised by all spheres are included



Note: Data from 2013

Composition of provincial government transfers

Main purpose of funding

Operating *(60% of provincial budgets are spent on salaries)*

Provincial equitable share formula allocations
R383 billion
80%

Unconditional allocations

Capital and national priorities

Conditional grants
R85 billion
20%

Conditional allocations

R468 billion in direct transfers to provinces in 2015/16

A further R3 billion will be spent by national departments on behalf of provinces through "indirect grants"

Composition of the provincial fiscal framework

- Provinces are primarily funded through transfers from national government
  - This is because most of their services are social services and the demand for these services is not correlated with the ability of a province to raise revenue (so they are better funded from the national revenue base)
  - Provincial services also generally target poorer residents who have less ability to pay for services
- Provincial own revenues include vehicle licenses (account for over half of revenues), gambling licenses and fees for goods and services provided

Provincial fiscal framework

Structure of transfers to local government

Operating

Local government equitable share formula allocations R45 billion 45%

RSC levies replacement and councilor remuneration support – R5.6 billion - 6%

Capital

Infrastructure conditional grants R36 billion 36%

Capacity building

Other conditional grants – R3.4 billion - 4%

Unconditional allocations

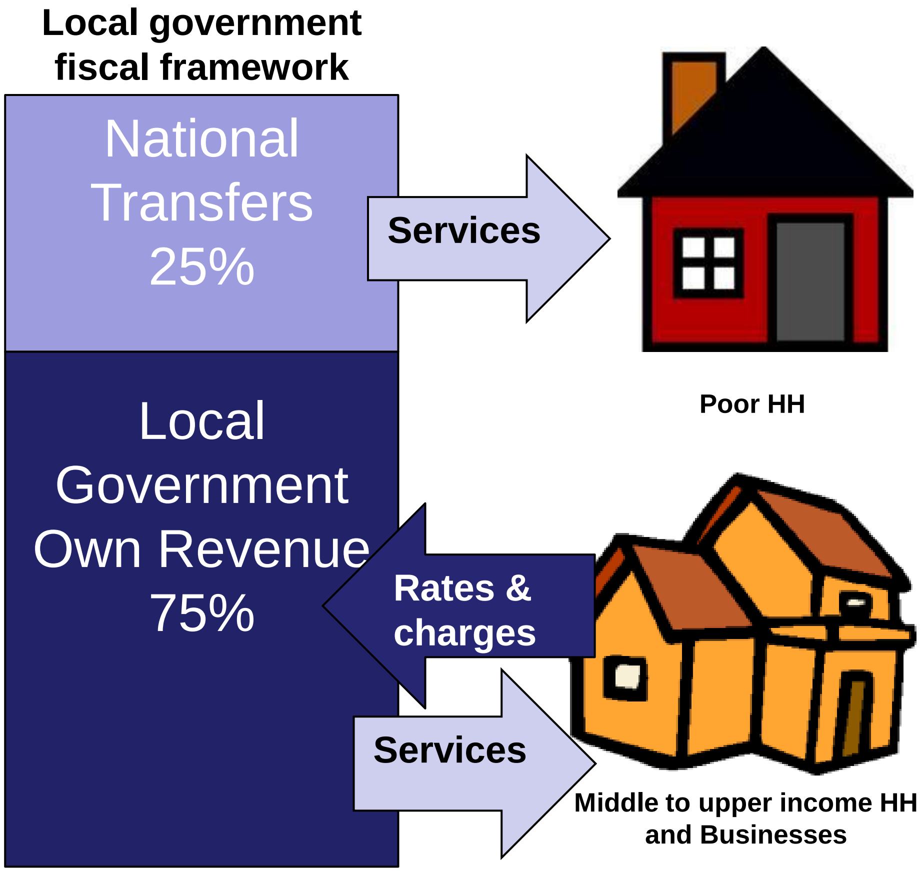
Conditional allocations

R99.8 billion in direct transfers to local govt in 2015/16

A further R10.4 billion will be spent by national departments on behalf of municipalities through "indirect grants"

Composition of the local government fiscal framework

- Services for poor households are mainly funded through transfers from national government (some cross-subsidisation within municipalities is also expected)
- Services for non-poor households and businesses are paid for from own revenues
- For the whole of local government, own revenues fund 75% of budgets, but in rural areas (with higher poverty rates) transfers can fund up to 80% of budgets
  - Size of own revenues determined in part by high volumes consumed by non-poor HHs and businesses



- In 2014/15 budgeted revenue for all municipalities is R310 billion
- Budgets ranged in size from R44 billion in Johannesburg to R34 million in Mier

Provincial Equitable Share Formula

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Provincial Equitable Share Structure (1 of 2)

- PES formula consists of six components that capture the relative demand for services amongst provinces
  - Health, Education, Basic, Poverty, Institutional and Economic
  - 4 of the 6 components rely on population figures
  - The weighting per component does not prescribe how the PES should be spent
  - The money is unconditional therefore allowing provinces the flexibility to budget their resources the best way possible in order to provide services to their people
- PES formula is used to determine the equitable share allocations to individual provinces (i.e. horizontal share)
  - 2004: review due to social grant function shift from provinces to national sphere
  - 2010: health component was revised
    - reinforces a system for hospital budgeting that better links budgets to outputs
    - uses patient load from clinics and hospitals (25%) and a risk adjusted index, which is a health risk profile of the population (75%)
- Provincial equitable share is a 'blunt' instrument
  - Formula funds a *basket of services,* the funding requirements of which are interrelated and no component should be seen in isolation
  - Allows provinces to prioritize
  - Decision around budgeting is a provincial decision.

Provincial Equitable Share Structure (2 of 2) (2015 MTEF)

Component	Data used
Education: 48%	Census 2011 age cohorts 2014 Preliminary Enrolment (Snap Survey) (new data)
Health: 27%	2014 Mid-Year Population Estimates (new data) Insured population (2012 GHS) (new data) Risk adjusted index (Risk Equalisation Fund) (new data) Patient load data (DHIS 2012/13 – 2013/14) (new data)
Basic: 16%	2014 Mid-Year Population Estimates (new data)
Poverty: 3%	2014 Mid-Year Population Estimates (new data) Income and Expenditure Survey (IES) 2010/11
Economic: 1%	GDP-R 2012
Institutional: 5%	Not applicable (data not used)

- Suppose that R100 is available to provinces for PES there will be:
    - R48 allocated through the education component for all 9 provinces
    - R27 for health
    - R16 for basic
    - R3 for poverty
    - R1 for economic
    - R5 for institutional

Eastern Cape as example
Education Component: R48

$$Age\ Cohort_{Share} \times School\ Enrolment_{Share} = Average\ Weighted\ Share$$

Age Cohort (15%) ✖ School Enrolment (15.2%) ═ Average weighted (15.1%)

$Age\ Cohort_{EC}/Age\ Cohort_{SA} = Age\ Cohort_{Share}$

1.9m/12.4m= 15 %

$School\ Enrolment_{EC}/School\ Enrolment_{SA} = School\ Enrolment_{Share}$

1.9 m / 12.6 m= 15.2%

$Age\ Cohort_{15\%} \times School\ Enrolment_{15.2\%}$ = 15.1%

- Of the **R48** available for education, EC gets 15.1% = 15.1% X R48 = **R7.25**
- Education subcomponents are based on the number of children who are in school and the number of who should be at school

Health Component: R27

$Risk\ Adjusted_{Share}$ + $Demand\ component_{Share}$

Risk Adjusted Component 75%

Demand Component 5% 20%

Mid-Year Population

6 787 mil

×

Insured Population

10.5 %

×

Risked Adjusted Index

96.9 %

+

Primary Healthcare Visits 2 year Average=

17 552 / 128 957= 13.6%

+

Hospital Component 2 Year average

4 548/32 219= 14.1%

$6\,787 \times (1 - 10.5\%) \times 96.9\% = 5883$

Weight Population

$Weight\ Pop\ (5883) / Total\ Risk\ Pop\ (44013) = 13.4\%$

Primary health Care Component Shares = Average PHC Visits / Total Average PHC Visits (Repeat for Hospital Component)

$$Risk\ Adjusted\ Share_{75\% \times 13.4\%} + Primary\ Health\ Care_{5\% \times 13.6\%} + Hospital\ Component_{20\% \times 14.1\%} = 13.5\%$$

Of the **R27** available allocated to all province under health, **R3.65** will be allocated to Eastern Cape. Health component is more complex and captures both the demand side of health care as well as the needs side of health services.

Health Component

Weight	Risk-adjusted 75.0%	Primary healthcare 5.0%	Hospital component 20.0%	Weights 2015
Eastern Cape	13.4%	13.6%	14.1%	13.5%
Free State	5.4%	5.6%	5.5%	5.4%
Gauteng	21.9%	18.1%	20.7%	21.4%
KwaZulu-Natal	20.8%	24.4%	25.0%	21.8%
Limpopo	10.7%	11.1%	9.0%	10.4%
Mpumalanga	7.8%	7.1%	5.8%	7.3%
Northern Cape	2.1%	2.6%	1.6%	2.1%
North West	7.2%	6.2%	5.0%	6.7%
Western Cape	10.7%	11.3%	13.2%	11.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

- Health combines a risk-adjusted capitation index (using Risk Equalization Fund) & output data from public hospitals
- These capture needs (risk-adjusted capitation) and demands (output component).
- The Risk adjusted Index is developed from cost curves from the Risk Equalization Fund using data on consumption of health services in the private sector.
  - The curves are based on health services used by people on medical aid and disaggregated by age and gender. For the purposes of the health formula, those cost curves have been weighted for HIV, AIDS and pregnancy.

Basic Component: R16

Mid_Year Population estimate $_{EC}$ ÷ *Mid_Year Population estimate* $_{South\ Africa}$ = *EC Population Share*

EC Population		*South Africa's Population*		*Population Share*
6 787	÷	54 002	=	6 787/ 54 002= 12.6%

- Of the **R16** available for Basic component, EC would get 12.6% x R16 = **R2.02**
- This component captures relative demand of services across provinces.
- Gauteng and KZN have the higher share because the have the highest population shares.

Poverty Component: R3

$$\left(\textit{Mid\_Year Population Estimates}_{EC} \times \textit{IES Survey\_Poor \% of Population}\right) \Big/ \textit{Total South Africa Poor Population} = \textit{Weight Share of Poor Population}_{EC}$$

EC Population		IES Survey		Poor Population		Share of poor population
6 787	×	52%	÷	3 531	=	3 531/21 807= 16.2%

- Of the **R3** available for poverty, EC gets 16.2% x R3 = **R0.49**
- The component uses only poor population in each province.
  - Defined as people whose incomes falls in the lowest 40% of income based on the Income and Expenditure Survey.
  - Each province's share is then expressed as relative to total poor across the country, how much of poor reside in a specific country

Economic Output Component: R1

GDp_R $_{EC}$ / *GDP* $_{South\ Africa}$ = *Share of Economic Activity* $_{EC}$

EC GDP-R		*National GDP-R*		*EC Share*
234 536(R' Mil)	÷	3 138 981 (R' Mil)	=	7.5%

- Of the **R1** available for economic output, EC gets 7.5% x R1 = **R0.075**
- The economic activity component is a proxy for provincial tax revenue.
- Its purpose is to direct nationally raised revenue back to provinces in proportion to the raised revenue,
- Therefore provinces that raises the most revenue will get the highest share of the component.

Equitable Share Weighted Shares

- The table below shows the weighted averages for each province once all the components and the inherent dynamics in each component are taken into consideration
- Due to natural population growth and migration trends KwaZulu-Natal and Gauteng have the biggest share.
- Rural provinces due to their population trends ("migrate from") declining would be losing out on 4 of the components with only the institutional component being in their favour

	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%**

Local Government Equitable Share Formula

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Background

- The Local Government Equitable Share (LGES) is allocated through a formula among the country's 278 municipalities.
- The LGES formula was reviewed during 2012 by:
  - National Treasury, the Department of Cooperative Governance and SALGA, with assistance from the Financial and Fiscal Commission and Statistics South Africa

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SALGA
South African Local Government Association

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- This review looked at the LGES formula, it did not examine the size of the total amount allocated to the LGES ("vertical division").
- New formula was implemented together with an update of decade-old data (Update of 2001 Census data, with 2011 Census data).

Review Process – emphasis on consultation

Stage 1:
Principles and objectives agreed

↓

Stage 2:
New formula structure agreed

↓

Stage 3:
New allocations determined

- Agreed by LGES Steering Committee
- Discussion papers on principles and objectives circulated for comments
- Workshops held with municipalities
- Agreed by LGES Steering Committee
- Discussion paper on proposed formula circulated for comments
- Workshop held with municipalities
- Draft Endorsed By Budget Forum
- Release of Census data
- Revisions approved by LGES Steering Committee
- Final formula endorsed by Budget Forum (7 February 2013)
- Approved by Cabinet (13 February 2013)

Principles and objectives of the LGES formula (agreed through the formula review process)

The following are the **objectives of the LGES formula** (amended after phase 1 of the consultation process):

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

The **principles of the LGES formula** require that the LGES Formula must:

1. Be objective and fair
2. Be dynamic and able to respond to changes
3. Recognise diversity among municipalities
4. Only use high quality, verifiable and credible data
5. Be transparent and simple
6. Provide for predictability and stability

The LGES formula structure

The LGES formula :

$$LGES = BS + (I + CS) \times RA \pm C$$

Where:

- **LGES** is the local government equitable share
- **BS** is the basic services component
- **I** is the institutional component
- **CS** is the community services component
- **RA** is the revenue adjustment factor
- **C** is the correction and stabilisation factor

Summary version provided on next slide

How the local government equitable share formula works

Formula has two main parts:

- Part 1:
  - Basic services component funds the delivery of free basic services and accounts for 75% of funds allocated in 2015/16
  - Addresses the first objective of the formula
- Part 2:
  - This part directs greater funds towards municipalities that cannot raise substantial own revenues
  - Institutional component funds admin costs
  - Community services component funds general municipal services
  - Addresses second objective of the formula

How the local government equitable share formula works (2015 Allocations)

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)

Formula components explained (1 of 2)

Basic Services Component

- The affordability threshold used in the formula is R2300 household income per month in 2011
  - Based on value of 2 state Old Age Pensions as favoured by municipalities during the consultation process
  - 59% of all households in SA fall below this threshold
- Subsidy of R314 per month allocated for providing free basic services to each household bellow the affordability threshold
  - Subsidy is based on an estimate of the average cost of providing services. Due to a lack of credible data on the different costs in each municipality the same cost is assumed for all municipalities.

	Allocation per household below affordability threshold (Rands per month)			Total allocation per service (R millions)
	Operations	Maintenance	Total	
Energy	59.57	6.62	66.19	7,122
Water	89.77	9.97	99.75	10,732
Sanitation	72.37	8.04	80.41	8,651
Refuse	60.67	6.74	67.41	7,252
Total basic services	**282.38**	**31.38**	**313.76**	**33,757**

Formula components explained (2 of 2)

Institutional component

- Provides funds for administration costs necessary to run a municipality
  - Allocation includes a base amount and an amount based on the size of a municipality

Community services component

- New component that funds services outside the basic services
  - allocated based on number of households in the municipality

Revenue adjustment factor

- Some municipalities are able to fund the costs of their administration and the provision of community services from own revenues (e.g. property rates)
- The LGES therefore applies a revenue adjustment factor to ensure funds from the Institutional and Community Services components only go to municipalities with limited own revenue

Annual updates to the data used

The formula is updated annually with:

- Cost data to account for price increases
  - Electricity cost is updated using NERSA approved tariff increases for bulk portion of the costs and CPI inflation for other costs
  - Water cost is updated using average of approved water board tariff increases for bulk costs and CPI inflation for other costs
  - Sanitation and Refuse Removal costs are updated using CPI inflation
- Household numbers are updated annually based on:
  - Rate of growth in households per municipality between 2001 and 2011
  - These estimates are then adjusted so that the total number of households per province matches the estimates in StatsSA's General Household Survey
  - Although these estimates are not produced by StatsSA they have checked the methodology used (StatsSA may in future produce municipal level HH estimates)

Simplified example of how the LGES formula works

- In a municipality with 22 000 households, with 57% of households with a monthly income of less than 2 old age pensions there will be **12 000 households funded for free basic services** through the equitable share

Free basic services

R314 per month multiplied by 12 000 =
R48 million

Institutional
R25 million (based on council size + base allocation)

Community Services
R29 million (based on number of HHs)

Because this town has a fair sized rates base a revenue adjustment factor of 34% is applied.

Allocation for institutional and community service components is:
(R25m + R29m) x 34% = **R19m**

R67 million
Final equitable share allocation

Examples of how LGES allocations for 2015/6 were determined through the formula

Municipality	Number of Households	Households with monthly income less than 2 old age pensions		Basic Services Allocation (R314 x 12 months x poor HHs)	Total Institutional Component (before revenue adjustment)	Total Community Services Component (before revenue adjustment)	Revenue Adjustment Factor	Adjusted I and CS allocation (total)	TOTAL allocation with new formula	Value of benefit from phase-in/ Contribution to phase-in	Final Equitable Share Formula Allocation
		Number	Percentage	Rand millions							
A	C	D	E	F	G	H	I	J	K	L	M
Johannesburg	1,563,832	772,332	49%	2,907.9	191.4	2,236.4	0%	-	**2,907.9**	-43.8	**2,864.1**
Govan Mbeki	89,597	45,781	51%	172.4	50.6	119.7	0%	-	**172.4**	22.6	**195.0**
Engcobo	38,093	30,157	79%	48.3	34.2	50.9	100%	85.1	**133.4**	-6.2	**127.2**
Mier	1,820	1,092	60%	4.1	10.6	2.4	72%	9.4	**13.5**	-0.4	**13.1**

- Johannesburg gets the largest allocation because it has 770 000 HHs below the affordability threshold, but lowest allocation per capita
- Govan Mbeki has significant own revenue potential so the new formula will only allocate them funds for basic services, but they receive additional support during the phase-in period
- Encobo’s allocation increases as the new formula is phased-in
- Mier’s average allocation is the highest because it gets a large institutional allocation relative to its size

	Allocation per poor HH 2015/16	**Allocation per poor HH with new formula fully phased-in**
	Rands	
Johannesburg	3,708	3,765
Govan Mbeki	4,259	3,765
Engcobo	4,218	4,424
Mier	12,005	12,352

These are summaries of the extensive data available on how the allocations are determined that is available online at: http://mfma.treasury.gov.za/Media_Releases/LGESDiscussions/Pages/default.aspx

Guarantees and phase-in

- The last element of the LGES formula ensures stability and predictability in allocations
- This comes after all of the other calculations discussed above

Guarantee

- Each municipality is guaranteed to receive at least 90% of the funds indicatively allocated in the previous year's DoRA
  - e.g. in 2015/16 municipalities will receive at least 90% of the 2015/16 allocation published in the 2014 DoRA
  - To meet this guarantee small amounts will be reduced from other municipalities (in proportion to the size of their allocations) and added to the allocation of any municipality whose formula-determined allocation doesn't meet the 90% level

Phase-in

  - Due to the large changes in the size of allocations caused by the introduction of a new formula and updating decade-old census data, the new formula is being phased-in over 5 years (from 2013/14 to 2017/18).

Context of the new formula: extreme population changes at individual municipal level

- Aggregate changes in number of households hides the significant changes experienced at individual municipal level

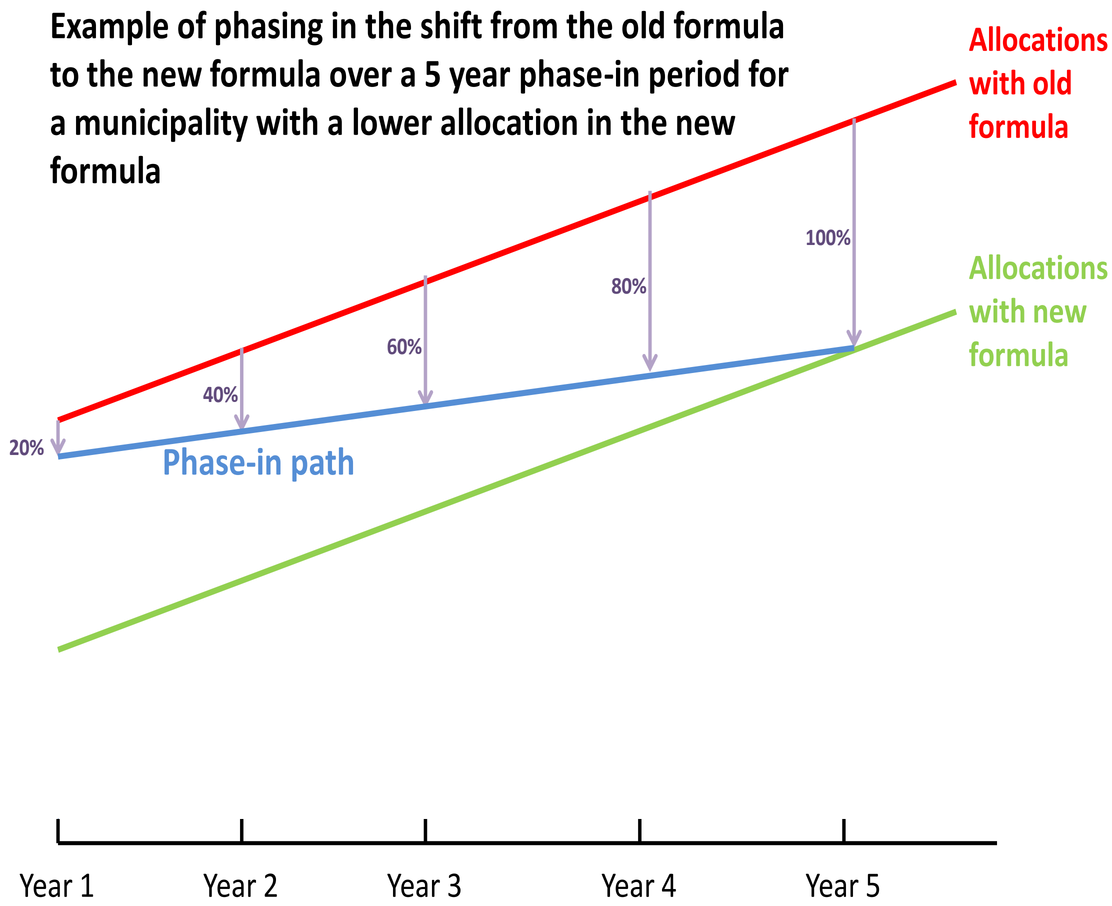
- Such increases, or even decreases, are considerable drivers of the changes in LGES allocations

10 Fastest Growing Municipalities			
Name	**Province**	**Municipal Type**	**2001-2011 Percentage Growth**
Gamagara	Northern Cape	Small town	104%
Bitou	Western Cape	Small town	90%
Steve Tshwete	Mpumalanga	Secondary city	79%
Rustenburg	North West	Secondary city	76%
Musina	Limpopo	Small town	73%
Swartland	Western Cape	Small town	68%
Madibeng	North West	Secondary city	68%
Tlokwe	North West	Secondary city	64%
Lesedi	Gauteng	Small town	61%
Emalahleni	Mpumalanga	Secondary city	60%

10 Slowest Growing Municipalities			
Name	**Province**	**Municipal Type**	**2001-2011 Percentage Growth**
Nala	Free State	Small town	-16%
Kopanong	Free State	Small town	-11%
Maphumulo	KwaZulu-Natal	Rural municipality	-10%
Great Kei	Eastern Cape	Small town	-9%
Umzumbe	KwaZulu-Natal	Rural municipality	-8%
Nkandla	KwaZulu-Natal	Rural municipality	-7%
Indaka	KwaZulu-Natal	Rural municipality	-6%
Letsemeng	Free State	Small town	-6%
Ntabankulu	Eastern Cape	Rural municipality	-5%
Siyancuma	Northern Cape	Small town	-5%

Phasing-in of new allocations

- Five year phase-in used to cushion impact of data updates and new formula
  - ‘losing’ municipalities only see their allocations reduced by 20% of the difference between old and new formulas each year
  - Funds to pay for this come from gaining municipalities, giving them time to adjust to higher allocations



Summary of differences between old and new LGES formulas

Old formula

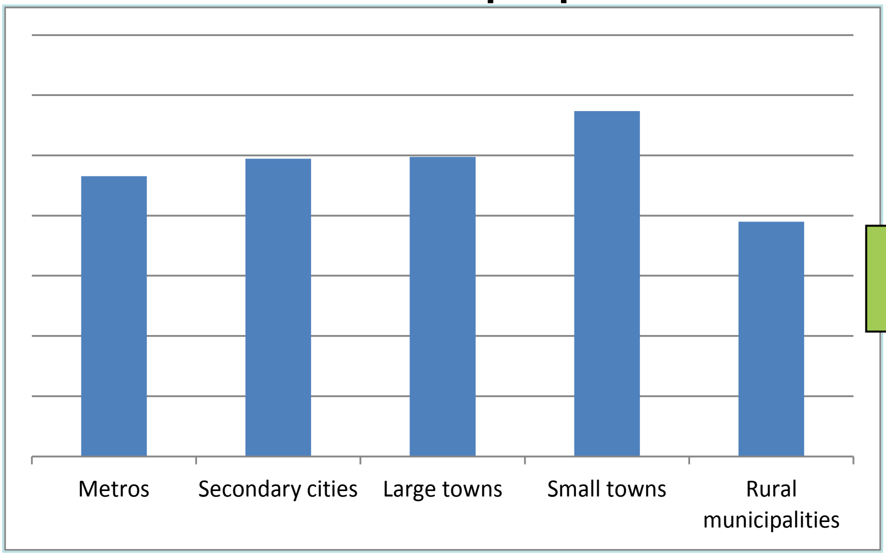
- Complex structure, not transparent
- Differentiated between households with or without access to basic services (allocated 1/3 as much for poor households without access to services)
- Poverty threshold of R800 per HH used (2001 prices)
- Subtracts a revenue-raising capacity correction from all of the formula's components
- Covers only major basic services
- Data only updated every 10 years
- Strongly population biased

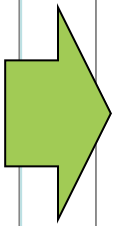
New formula

- Simpler structure, more transparent
- Does not differentiate between households with or without access to basic services (rights-based approach subsidises all poor households)
- Higher poverty threshold of R2300 (2011 prices)
- Applies a revenue adjustment factor to the I and CS components only
- New CS component funds other core municipal services
- Data updated annually
- More redistributive

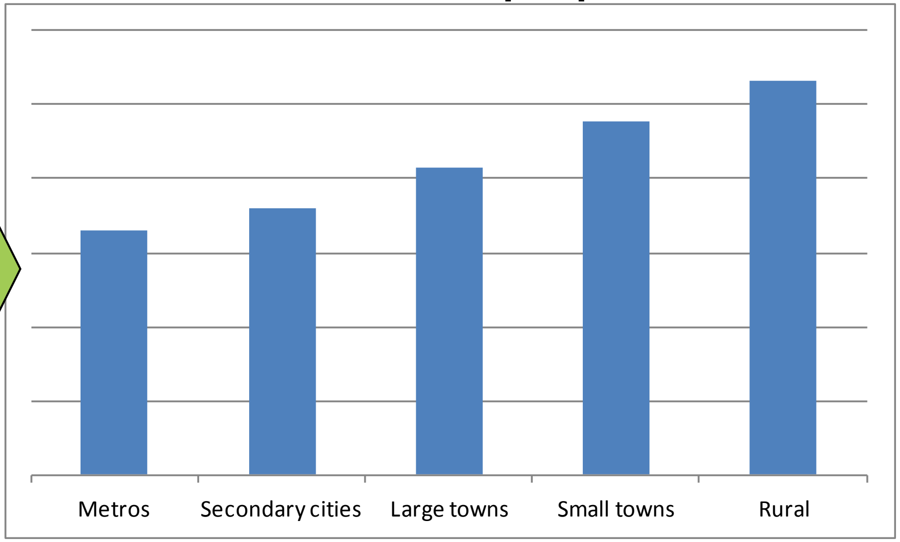
Impact of the new formula (1 of 2)

Old formula - Allocation per poor household





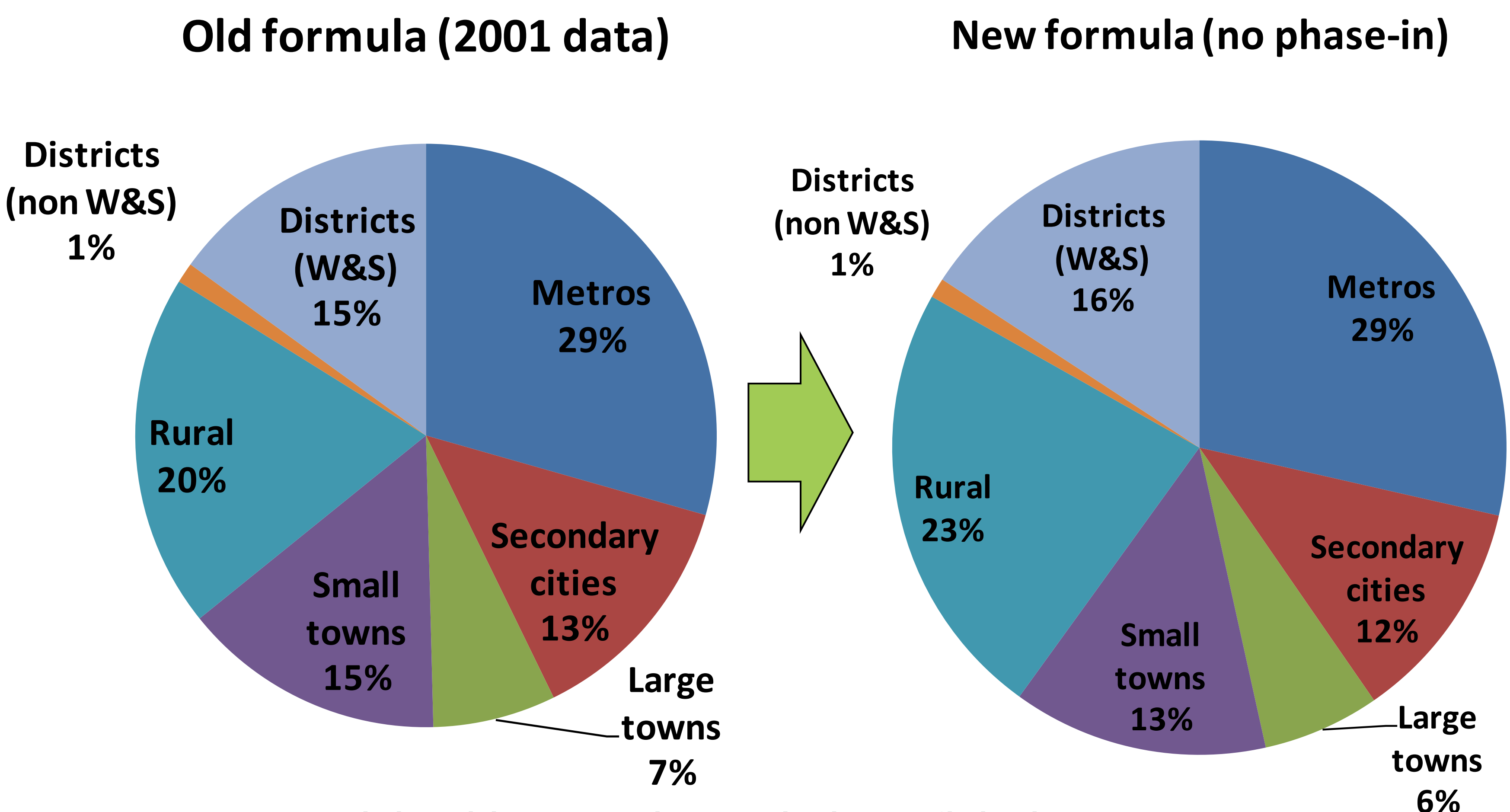
New formula - Allocation per poor household



- The old formula produced allocations per poor household that were lowest for municipalities with the least ability to raise their own revenue
- The new formula corrects this with a much more redistributive structure

(figures presented here exclude the impact of the phase-in)

Impact of the new formula (2 of 2)

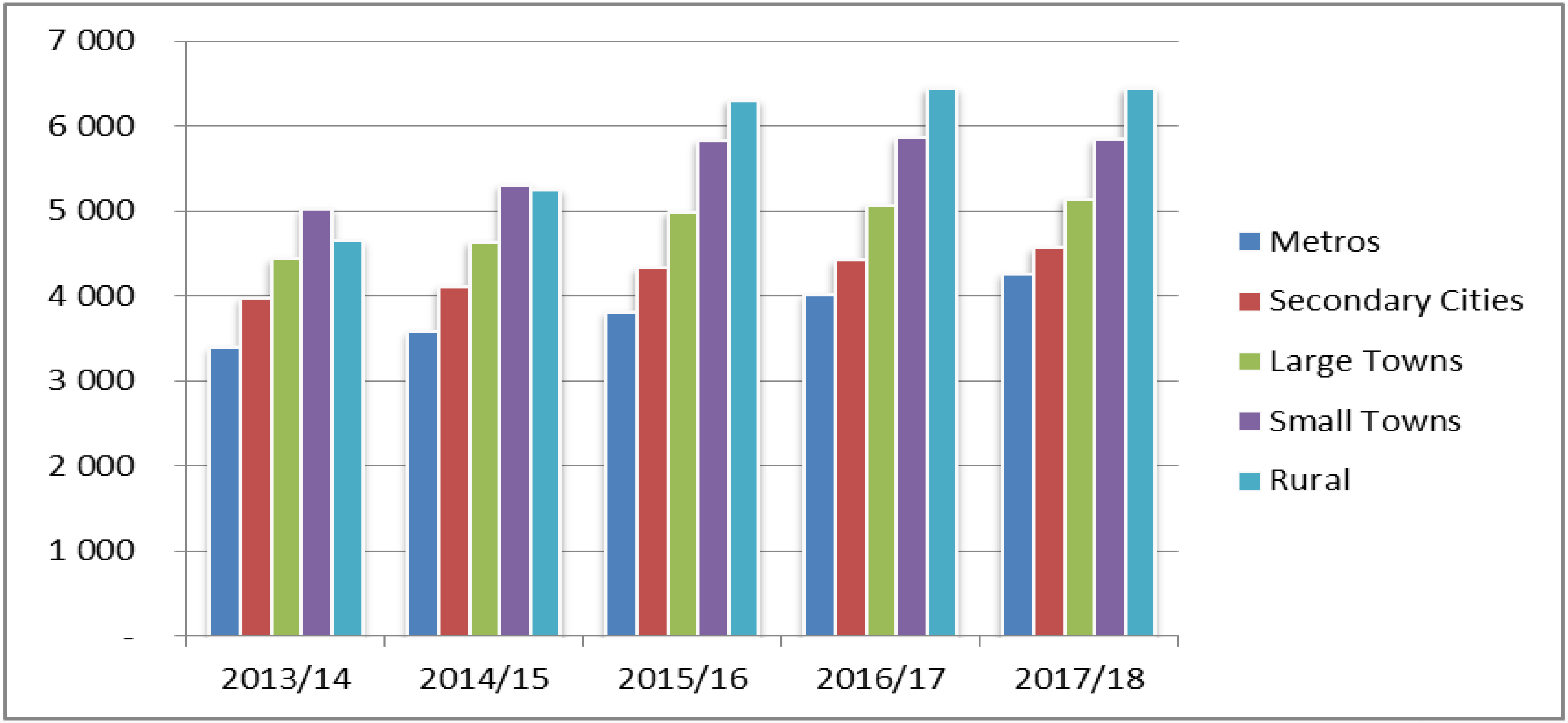


- Rural municipalities are the main beneficiaries

Large towns include: Knysna, Randfontein, Kokstad, Mahikeng and Makana
Small towns include: Beaufort West, Bela Bela, Vetersdorp and Mier
Rural municipalities include: Bushbuckridge, Ntabankulu, uPhongolo and Greater Taung

LGES Allocations – Post Phase In 5 Year (1 of 3)

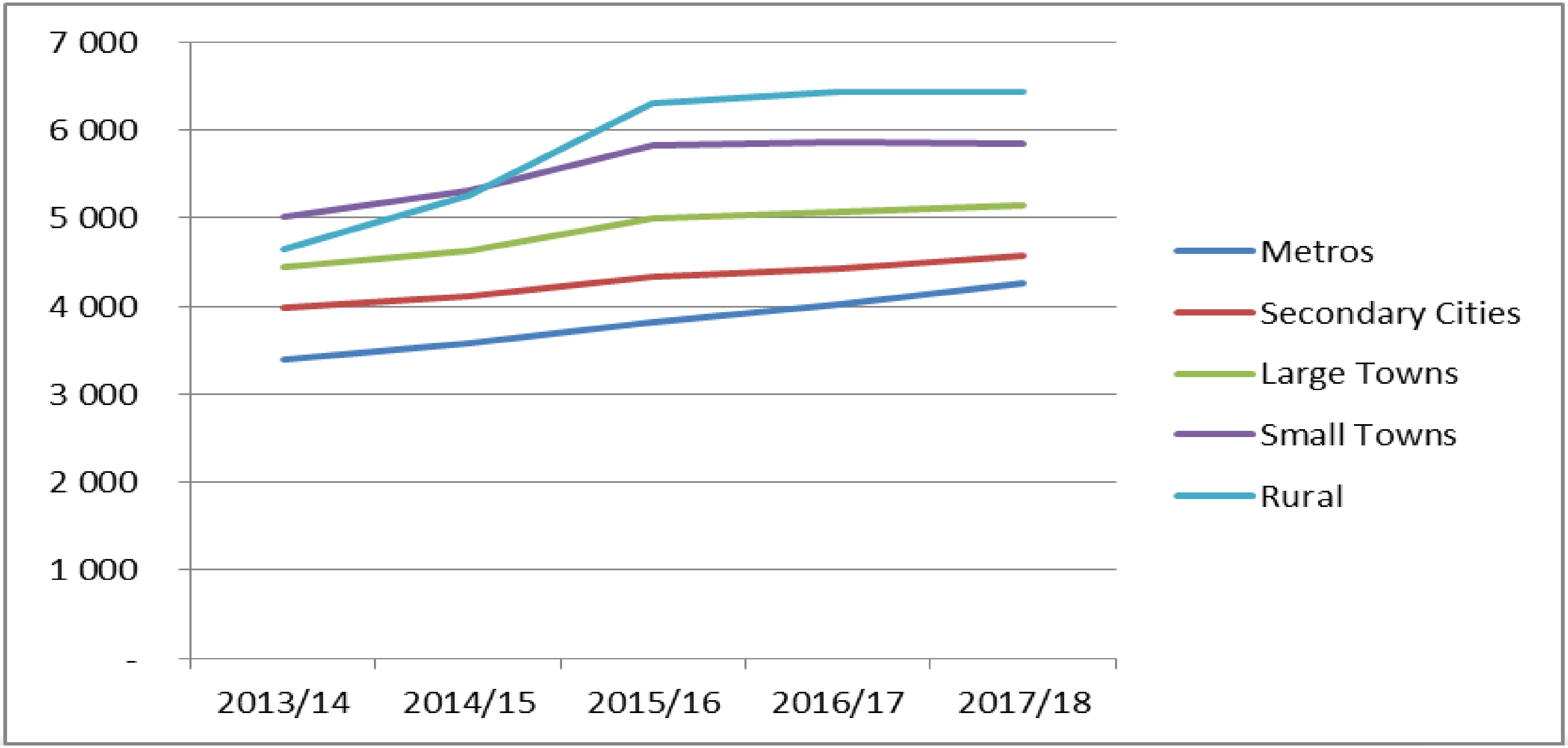
2013/14 - 2017/18 (5 Years) Post Phase-In Allocation per poor HH (If all functions assigned to Metros and LMs)



Note: data in these slides is recalculated so that water and sanitation funds are allocated to local municipalities

LGES Allocations Post Phase-In – 5 year (2 of 3)

2013/14 - 2017/18 (5 Years) Post Phase-In Allocation per poor HH (If all functions assigned to Metros and LMs)



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LGES Allocations Post Phase In – 5 year (3 of 3)

2013/14 - 2017/18 (5 Years) Pre Phase-In Allocation per poor HH (If all functions assigned to Metros and LMs)

LGES Post Phase-In Allocation / Pre Phase-In Allocation Per Poor Household

Municipal Category R'	2013/14	2014/15	2015/16	2016/17	2017/18
Metros	3 392	3 579	3 810	4 014	4 260
Secondary Cities	3 976	4 108	4 326	4 419	4 563
Large Towns	4 438	4 636	4 987	5 064	5 141
Small Towns	5 020	5 303	5 828	5 854	5 838
Rural	4 645	5 248	6 298	6 438	6 437

- Rising bulk costs and population growth mean the basic services component will absorb more funding over the MTEF, leaving less funding for the redistributive I and CS components

Transparency

- To promote transparency, details of all the data and calculations used and determine the allocation of each municipality are published in Excel format on the National Treasury's website at:

  http://mfma.treasury.gov.za/Media_Releases/LGESDiscussions/Pages/default.aspx

- Documents from the review of the formula (including details of how the basic services subsidies are calculated) are available at the same link

Potential future refinements to the formula

- Although the structure of the formula is not expected to change, several refinements could be made to improve the allocative efficiency of the formula
  - If a reliable and fair methodology can be found to differentiate the costs of providing services in different areas then the basic services component could use this to target more funds to areas where services are expensive (the FFC and SALGA have commissioned research on this)
  - Funds are divided between local and district municipalities based on their functions. An official database on the assignment of community services functions could assist to make this division fairer. E.g. fire service funds could be allocated only to the municipality officially authorised for the function.

Thank You