2018 Division of Revenue Amendment Bill and Division of Revenue in the MTBPS

Select and Standing Committees on Appropriations

National Treasury | 8 November 2018

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Outline

- This presentation covers two topics:
  - A response to issues raised on provincial and local government finances during hearings on the 2018 Medium Term Budget Policy Statement
  - An overview of the 2018 Division of Revenue Amendment Bill

Responses to DoR Issues from Parliamentary Hearings on the MTBPS

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Division of Revenue in the MTBPS

- Growth in provincial and local allocations is above inflation and slightly faster than growth in national allocations
- Funds are added to provinces to extend free sanitary towels in poor schools and improve school sanitation
- Grants for social workers and substance abuse treatment will be incorporated into the provincial equitable share
- Informal settlement upgrading will be prioritised through ring-fenced funds in 2019/20, with a view to creating separate grants in future years. Electrification funds for metros will also be incorporated into the Urban Settlements Development Grant

Division of revenue, 2019 MTEF

R billion	2018/19 Revised	2019/20	2020/21	2021/22	Avg. annual growth
		Medium-term estimates			
Division of available funds					
National departments	**641.5**	**688.1**	**739.4**	**786.4**	7.0%
Provinces	**572.2**	**613.0**	**658.6**	**704.0**	7.2%
Local government	**121.8**	**127.3**	**138.2**	**149.9**	7.2%
Total	**1 335.5**	**1 428.4**	**1 536.2**	**1 640.3**	**7.1%**
Percentage shares					
National departments	48.0%	48.2%	48.1%	47.9%	
Provinces	42.8%	42.9%	42.9%	42.9%	
Local government	9.1%	8.9%	9.0%	9.1%	

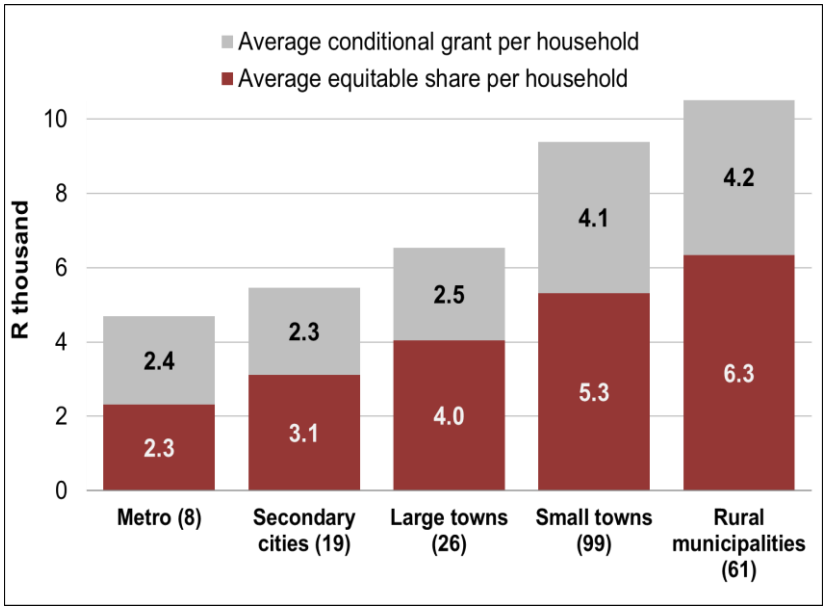
Source: 2018 MTBPS, National Treasury

- A new Integrated Urban Development Grant will be introduced for intermediate cities to enable them to develop more integrated investments (including incentivising the investment of more own revenues)

Local government equitable share formula

- SALGA cited their research (with the FFC) on the cost of municipal services
  - This study produced a number of interesting results, including highlighting concerns about the high admin costs of municipalities
  - Detailed costings of municipal services are notoriously difficult, and there are a lot of assumptions that could be questioned in the study
  - If the study's costings were used to allocate basic services allocations in the LGES formula, this would result in a shift of funds away from rural and towards urban municipalities (reversing the impact of reforms to the LGES formula since 2013)

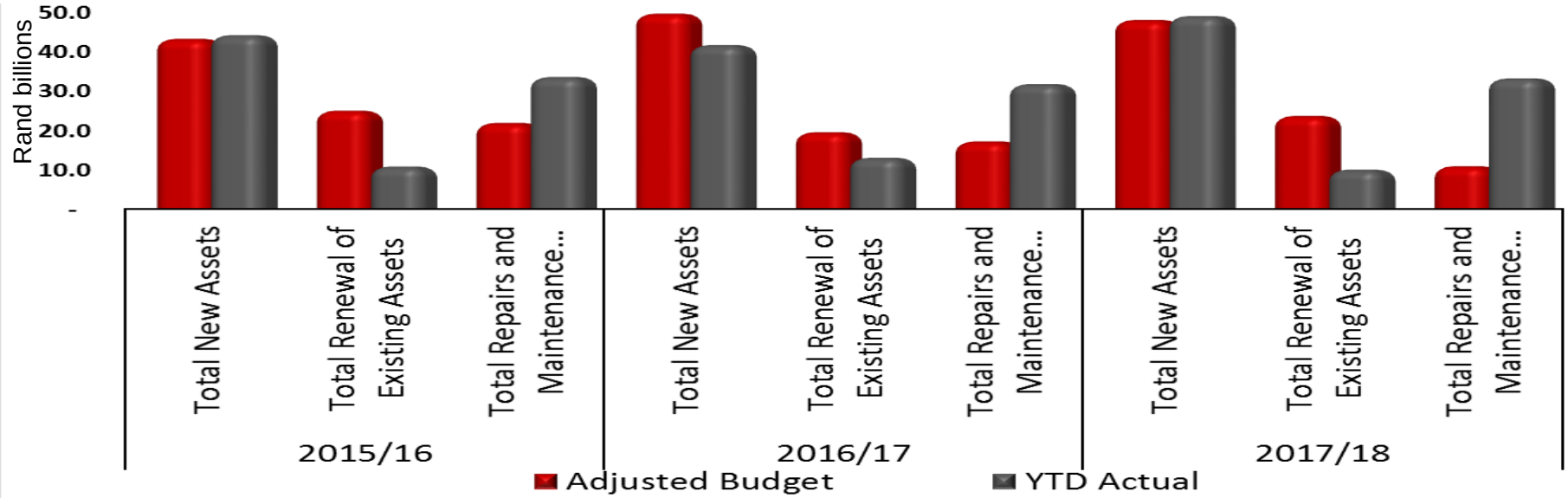
Local government transfers per household, 2018/19



- It should also be noted that the LGES formula does not use municipal indigent registers as an input. Instead, it uses objective data on HH poverty rates from the Census

Funding municipal maintenance and refurbishment

LG asset management data shows low spending on renewal and high levels of unplanned maintenance



- SALGA complained that government funds the development of new infrastructure but not maintenance and refurbishment
  - The LG equitable share includes a provision of 10% of operating costs for maintenance
  - Most maintenance should be funded from municipal own revenues (and prioritised in municipal budgets). Municipalities must charge tariffs that account for maintenance costs
  - Grant rules have been changed to allow funds to be used for refurbishment and for road maintenance if certain conditions have been met. But uptake of these conditions has been very low. National Treasury is working with grant managers to improve this

Resolving outstanding debts owed to municipalities

- SALGA was concerned about the continued non-payment of debts owed to municipalities
- Intergovernmental debts are a broader problem, with departments, municipalities, state owned enterprises and other government entities all having outstanding payments owed to one another. We are committed to changing the culture of non-payment within government and improving consequence management for those that do not meet the 30 day payment requirement in the PFMA
- With respect to debts owed to municipalities, government is taking specific actions to enable the payment of verified debts:
  - One of the reasons that departmental debt to municipalities has not been paid is that many government buildings are not properly registered. Departments cannot pay bills for buildings that are not theirs
  - The 2018 MTBPS announces a number of reprioritisations, including R100 million (R50m in 2019/20 and R50m in 2020/21) to fund the Department of Public Works to resolve the ownership of buildings and register them correctly on the deeds registry
  - This should finally allow these debts to be paid

*m*SCOA (1)

- SALGA is concerned about support for the implementation of *m*SCOA, and proposed that small municipalities be exempted from its requirements
- It is important to bear in mind the background and purpose of *mSCOA:*
  - mSCOA is a key part of the Local Government Budget and Financial Management Reform package which has included reforms to accounting, then budget and now systems.
  - mSCOA will deliver extensive benefits to local government, including helping to set cost-reflective tariffs, improved management of finances and enabling better oversight
  - There have been extensive engagements on the reform with municipalities, vendors, provincial treasuries and other stakeholders since 2010. mSCOA is the most consulted on financial management reform in the history of LG.
  - The Regulation on mSCOA was promulgated on 22 April 2014. Municipalities then had a 3 year preparation period to comply with the Regulation by 1 July 2017. It was made clear from the beginning that no extension or exemption will be given to any municipalities.
  - We are currently in mSCOA Phase 5 which commenced on 1 April 2017 and focusses on the implementation (post 1 July 2017) and institutionalisation of mSCOA. NT and Provincial Treasuries have taken ownership of mSCOA support and oversight (from consultants) as the reform has moved from being a project to 'business as usual'.

*m*SCOA (2)

- 98% of municipalities have successfully submitted their tabled and adopted budget data strings for the 2018/19 MTREF through mSCOA-compliant systems.
- Small municipalities are often more successful in implementing the reform as they have fewer accounts and transactions.
- The challenges municipalities face are not generally caused by mSCOA, rather mSCOA implementation reveals existing problems and incompleteness in the way municipalities have been capturing information.
- NT is providing extensive support on the implementation of the reform, including:
  - The appointment of 8 advisors to support provincial treasuries with implementation.
  - Bi-monthly engagements with the *m*SCOA Champions of all Provincial Treasuries to discuss mSCOA related challenges, agree on solutions and provide training.
  - Regular engagements with municipal system vendors to provide guidance on *m*SCOA related technical reporting issues and implementation challenges.
  - Guidance to municipalities on the alignment of the 2017/18 AFS to *m*SCOA and on how to prepare for the 2017/18 *m*SCOA audit (in conjunction with AGSA).
  - *m*SCOA training, including 51 trainers from CIGFARO, 110 SARS and 28 NERSA officials.
  - A Frequently Asked Questions (FAQ) database was established to provide a platform for technical and accounting related *m*SCOA queries. All o*f the 323 questions logged from 1 Oct 2017 to 1 Oct 2018 have been addressed.*

Provincial wage bill and local government equitable share

- Several stakeholders raised concern about the pressure on budgets resulting from the public sector wage agreement
  - Managing the wage bill will be one of the biggest challenges for provincial budgets in the 2019 MTEF
  - No reductions are proposed to the provincial equitable share, allowing provinces fiscal space to manage the pressure
  - Provinces need to continue to improve the balance between administrative and frontline staff as a way of slowing the growth of the wage bill
  - Attrition and an ageing staff profile (and increased retirements) provide scope for provinces to contain growth in compensation spending
- The FFC raised concerns about the growth of the LG equitable share
  - The equitable share grows by 9.9 per cent in 2019/20, 9.7 per cent in 2020/21 and 8.6 per cent in 2021/22
  - The growth rate is based on household growth (which StatsSA estimates to be slower than previously published) and the rising cost of services (with uncertainty over the electricity costs)

Efficiency of spending

- The FFC raised several issues on improving the efficiency of spending (particularly for local government and infrastructure) and monitoring and evaluation
  - National Treasury agrees on the need to review the local government capacity building system. Such a review was announced in the MTBPS
  - The MTBPS also announced the intention to augment the Municipal Financial Recovery Service and the capacity of provincial treasuries to support interventions
  - Government agrees with the FFC's call for improved costing, monitoring and evaluation of infrastructure spending and is progressively implementing improvements.
    - In the health and education sectors unit cost benchmarks are being used and provincial road maintenance funding is now allocated mainly based on the extent of their road network
    - Each sector department is expected to improve its capacity to monitor the performance of grants they administer
  - Government is strengthening infrastructure planning, introducing one Infrastructure Delivery Management System for the whole of government and establishing a project preparation facility that brings together expertise from government and the private sector to deploy technical experts to support the development of investment-ready projects
  - We are also improving the transparency of reporting on infrastructure projects, in line with parliament's request to receive quarterly updates on progress
- National Treasury agrees with the FFC's emphasis on improving the impact achieved through existing baselines, as an appropriate response to the constrained fiscal environment

2018 Division of Revenue Amendment Bill

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Overview of the DoRAB process

- The 2018 Division of Revenue Act (DoRA) was considered and approved by Legislatures at the beginning of this year and was signed by the President on 1 June 2018 (it is Act 1 of 2018).
  - The DoRA makes equitable share and conditional grant allocations to provinces and municipalities and sets out the rules for those grants
- The Division of Revenue Amendment Bill (DoRAB) makes amendments to the DoRA
- Section 12(4) of Money Bills Amendment Procedure and Related Matters Act requires that the Minister of Finance table a DoRAB with the revised fiscal framework if the adjustments budget effects changes to the DoRA
- This presentation sets out all of the changes to provincial and municipal allocations in the 2018 DoRAB

How changes are shown in the schedules

- The main purpose of the DoRAB is to amend "column A" of the DoRA which shows the allocation for the current year
- The new "Column A" created by the DoRAB shows the original allocation, the adjustment and the new allocation so as to maximise transparency in the adjustment process
- "Column A" is amended for:
  - Schedule 1
  - Schedule 5 Part B
  - Schedule 6, Parts A & B
- Schedule 5, Part A is replaced with a version that includes an additional grant

Schedule from 2018 DoRA

Name of allocation	Province	Column A	Column B	
		2018/19	Forward Estimates	
			2019/20	2020/21
		R'000	R'000	R'000
Education Infrastructure Grant	Eastern Cape	1 479 828	1 394 253	1 547 060
	Free State	755 337	643 932	714 506
	Gauteng	1 373 073	1 283 691	1 424 381
	KwaZulu-Natal	1 866 435	1 794 644	1 991 333
	Limpopo	1 011 680	1 068 836	1 275 292
	Mpumalanga	838 551	730 112	810 132
	Northern Cape	568 766	450 710	500 107
	North West	1 002 988	900 412	999 095
	Western Cape	1 021 076	919 146	1 019 882
	Unallocated	-	1 128 423	1 184 844
	TOTAL	9 917 734	10 314 159	11 466 632

Schedule from 2018 DoRAB

Name of allocation	Province	Column A		
		2018/19 Main Allocation	Adjustment	2018/19 Adjusted Allocation
		R'000	R'000	R'000
Education Infrastructure Grant	Eastern Cape	1 479 828		1 479 828
	Free State	755 337		755 337
	Gauteng	1 373 073		1 373 073
	KwaZulu-Natal	1 866 435	150 000	2 016 435
	Limpopo	1 011 680		1 011 680
	Mpumalanga	838 551		838 551
	Northern Cape	568 766		568 766
	North West	1 002 988		1 002 988
	Western Cape	1 021 076	25 829	1 046 905
	TOTAL	9 917 734	175 829	10 093 563

Annexures to the Bill

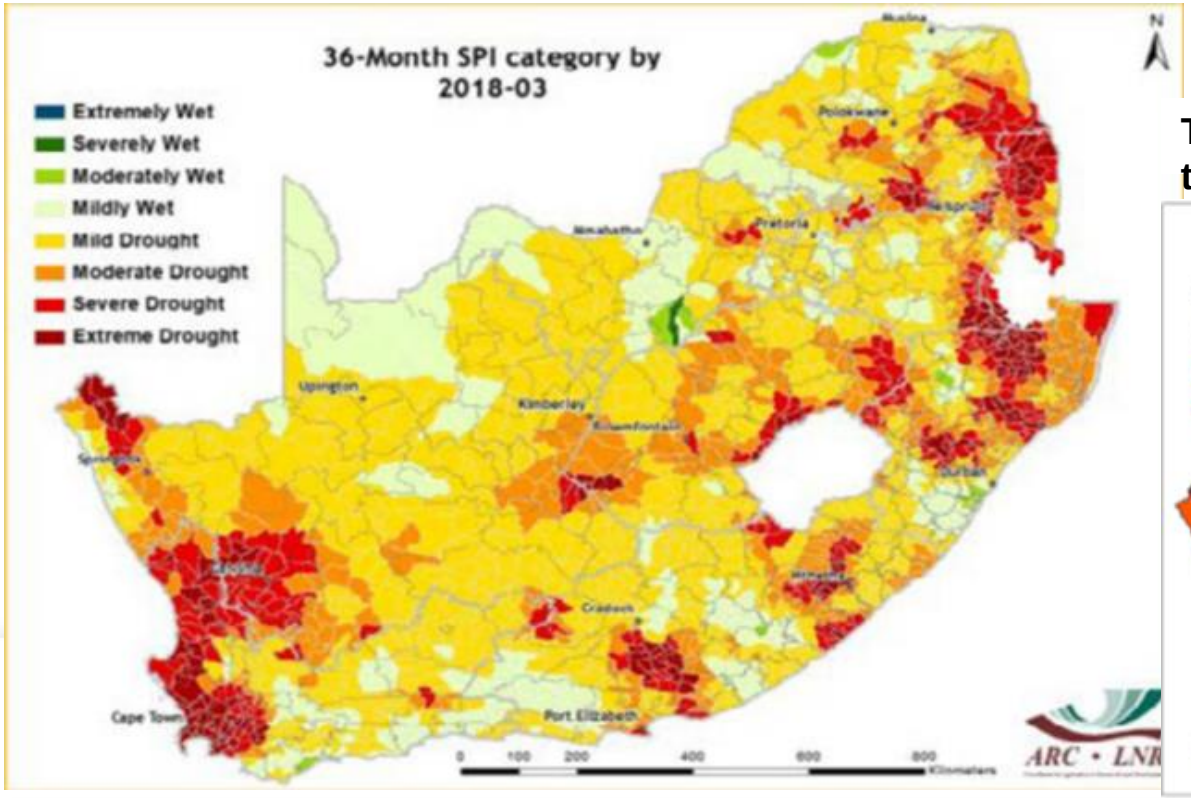
- Together with the tabling of the Division of Revenue Amendment Bill, National Treasury also submits to Parliament proposed changes to gazetted conditional grant frameworks and allocations
- Section 16(2) of the Division of Revenue Act, 2018, requires National Treasury to consult Parliament on any proposed changes to a conditional grant framework for the purposes of correcting an error or omission
- Parliament is requested to consider and approve corrections to the conditional grant frameworks outlined on the subsequent slides (slides headed “Framework correction”)

- Once the Bill is enacted, National Treasury will also gazette the amended allocation per municipality outlined in annexures 4-6 of the Bill and the changes per province for indirect grants set out in annexures 1 and 2 of the Bill

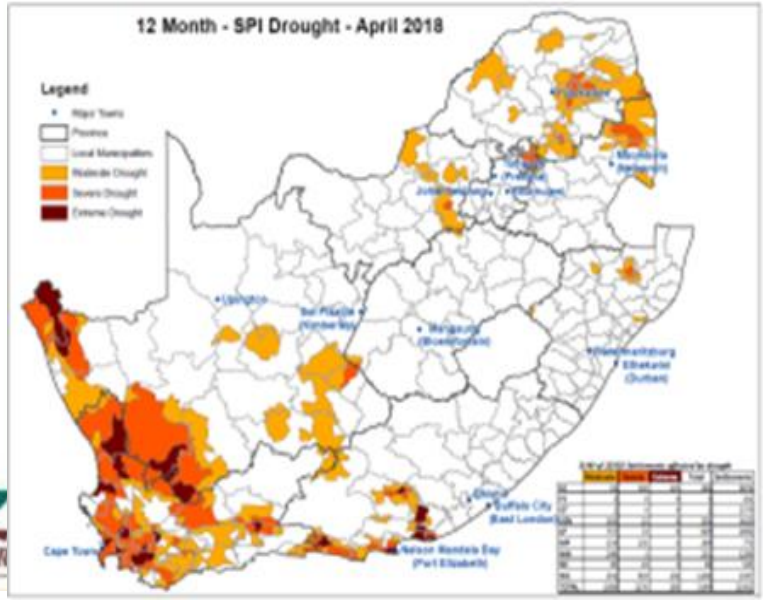
Drought relief: Background

- Since 2014, South Africa has been gripped by a devastating drought
- A national disaster was declared in April 2018 but lapsed in June 2018
- Government's response has been led by the Inter-Ministerial Task Team (IMTT) on Water Scarcity and Service Delivery
- Nation-wide dam storage level was at 71% in October 2018

Drought affected most parts of SA over the past 3 years (2015-18)



The drought was more concentrated in the 12 months up to April 2018



Drought relief: Funds allocated prior to the 2018 Adjustments Budget

- Extensive funding for drought relief was allocated through the grants system prior to the 2018/19 financial year
- This included:
  - Provision for livestock feed for drought affected farmers in the Northern Cape and Western Cape
  - Provision of emergency water augmentation projects for municipalities
- R1.56 billion was allocated through conditional grants (through reprioritisations and additional allocations)

Summary of amount allocated per province through conditional grants for drought relief prior to 2018/19

Province	Total allocations 2016/17-2018/19	% share of allocation
Eastern Cape	304 738	19.5%
KwaZulu-Natal	641 300	41.0%
Northern Cape	165 850	10.6%
Western Cape	451 802	28.9%
Total	**1 563 690**	**100.0%**

- A further R1.59 billion of municipal and provincial own funds were also reprioritised towards drought response over this period

Drought relief: How allocations for 2018/19 were determined

- The 2018 Budget Speech announced that:
  - *"A provisional allocation of R6 billion has been set aside in 2018/19 for several purposes, including drought relief and to augment public infrastructure investment"*
- National Treasury ran a process to allocate funds that included 2 windows for applications (in June and August 2018)
- Applications were assessed with the National Disaster Management Centre. Sector departments, provinces and municipalities were called for further inputs
- Section 6(2)(b) of the Appropriation Act, 2018, enables expenditure announced in the Budget Speech to spent before tabling an Adjustments Appropriation Bill
- Direct allocations to provinces and municipalities were gazetted on 4 October 2018

Summary of criteria used to evaluate applications

- The ability of the affected sectors to spend and account for funds
- Existing baselines in relevant programmes
- Prioritising projects that would be completed and deliver water in the time available to spend these funds
- The need to implement interim or stop-gap measures before sustainable solutions are implemented and the extent to which the applicants were affected by the drought.
- The prioritisation of the projects that improve long-term drought resilience.
- Cost for potential water yield
- Municipalities with substantial own revenues are expected to co-fund projects
- Funding should be broadly proportional to the extent of the drought, after accounting for population differences

Drought relief: 2018/19 allocations (1 of 3)

- A total of R3.4 billion in drought response funding has been allocated to all three spheres of government
- A total of R1.98 billion is added to direct conditional grants for drought relief. These amounts were gazetted on 4 October 2018

Drought relief allocated to provinces

- R266.5 million for the *Comprehensive Agricultural Support Programme Grant* for feed and water for livestock in six drought affected provinces.
- R200 million for the *Land Care Programme Grant* for activities to improve the resilience of agricultural land to drought. This includes the removal of alien vegetation, fencing, firebreaks and stock water systems
- R200 million for the *Provincial Disaster Relief Grant* to provinces. The original allocation for this grant in the 2018 Budget has been used up. Additional funds will replenish the grant so that it can be used to fund relief for any further disasters that may occur

Drought relief: 2018/19 allocations (2 of 3)

Drought relief allocated to municipalities

- Direct conditional grants
  - R288.1 million for the *Water Services Infrastructure Grant* to fund a variety of water supply augmentation projects including drilling and equipping boreholes to access groundwater and implementing water conservation measures where the reduction of water losses will improve the sustainability of supply
  - R1.03 billion for the *Municipal Disaster Recovery Grant* to be transferred to Cape Town, Nelson Mandela Bay and Mangaung to subsidise the costs of water augmentation projects, including groundwater development and water conservation. These cities are also expected to contribute funds from their own revenue base
- Indirect conditional grants
  - R1.01 billion for the indirect *Water Services Infrastructure Grant* for water supply augmentation projects including drilling and equipping boreholes and implementing water conservation
  - R6 million for the indirect *Regional Bulk Infrastructure Grant* to accelerate a water supply augmentation project in Ndlambe Local Municipality

Drought relief: 2018/19 allocations (3 of 3)

Summary of amount per province for drought relief allocated through conditional grants, 2018/19

R millions	Agriculture grants to provinces	Provincial Disaster Relief Grant	Direct grants to municipalities	Indirect water grants benefitting municipalities	TOTAL
Eastern Cape	56.0	-	444.0	436.6	**936.6**
Free State	13.5	-	239.0	-	**252.5**
Gauteng	-	-	-	-	**-**
KwaZulu-Natal	9.9	-	-	122.4	**132.2**
Limpopo	45.2	-	-	97.5	**142.7**
Mpumalanga	20.9	-	56.8	-	**77.7**
Northern Cape	78.0	-	-	9.8	**87.8**
North West	31.2	-	20.7	288.9	**340.8**
Western Cape	211.9	-	553.1	58.9	**823.9**
Unallocated	-	200.0	-	-	**200.0**
TOTAL	**466.5**	**200.0**	**1 313.6**	**1 014.1**	**2 994.2**

Framework correction: Correction of omission of drought relief conditions

- The grant frameworks for the following grants are amended to include conditions attached to the approval of drought relief funding
  - *Comprehensive Agricultural Support Programme Grant;*
  - *Land Care Programme Grant;*
  - *Municipal Disaster Recovery Grant;*
  - *Water Services Infrastructure Grant*
  - *Regional Bulk Infrastructure Grant*
- The conditions include:
  - Transferring officers to monitor progress on the implementation
  - Transferring officers to report monthly to the National Joint Drought Coordinating Committee of the IMTT Technical Committee of Drought and Water Scarcity
  - One month after the receipt of the allocations, receiving officers to provide a detailed breakdown of how the funds will be used to the transferring officer and National Treasury
  - Receiving officers to report on the expenditure in line with the requirements of DoRA and the gazetted grant framework

Disaster recovery allocations

- In the immediate aftermath of a disaster funds are released from the provincial and municipal disaster relief grants to fund immediate needs
- After this, the National Disaster Management Centre leads a process to assess and verify the damage to infrastructure. Based on this assessment funds are then allocated in the next budget or adjustment budget for disaster recovery.
- In the 2018 DORAB disaster recovery funds are allocated for the repair of damage caused by storms in KwaZulu-Natal and fires in the Western Cape
  - R16.3 million is allocated to KwaZulu-Natal through a new *Provincial Disaster Recovery Grant* for the repair of provincial buildings managed by the Departments of Social Development and Cooperative Governance and Traditional Affairs
  - R175.8 million is added to the *Education Infrastructure Grant* for the repair of 87 schools in KwaZulu-Natal and 22 schools in the Western Cape
  - R199.5 million added to the *Health Facility Revitalisation Grant* for the repair of 14 hospitals in KwaZulu-Natal
  - R1.3 million is added to the *Comprehensive Agricultural Support Programme Grant to* repair damage to 15 farms in the Western Cape
  - R100.1 million added to the *Human Settlements Development Grant* to repair 3280 subsidised houses damaged in KwaZulu-Natal, and three houses in the Western Cape
  - R143.3 million added to the *Municipal Disaster Recovery Grant, R138.7m for* municipalities in KwaZulu-Natal and R4.6 million for Bitou LM in the Western Cape.

Framework correction: Correction of omission of disaster recovery conditions

Ring-fencing disaster recovery funds

- Conditions are added to ring-fence funds added for disaster recovery in the following conditional grant frameworks:
  - *Education Infrastructure Grant*
  - *Human Settlements Development Grant*
  - *Health Facility Revitalisation Grant*

Provincial Disaster Recovery Grant

- The *provincial disaster recovery grant* framework will be gazetted for 2018/19. This grant did not form part of the Division of Revenue Act, 2018, but has now been allocated in response to the need to repair provincial buildings damaged by heavy storms and floods in KwaZulu-Natal.

Budget Facility for Infrastructure allocations

- Government has previously announced the creation of a Budget Facility for Infrastructure (BFI) that will put proposed large infrastructure projects through a rigorous assessment process before recommending funding
- The BFI process includes engagement with the relevant sector stakeholders and the Presidential Infrastructure Coordinating Commission
- Two projects that have been recommended through this process for potential long-term funding are allocated initial funding in the 2018 DoRAB:
  - R166 million is added to the *National Health Insurance Indirect Grant: Health Facility Revitalisation Component* for the procurement of medical equipment as well as the planning and design of Limpopo's proposed new academic hospital.
  - R33 million is added to the *Public Transport Network Grant* for the City of Cape Town to begin detailed design on a new phase of the MyCiti public transport network approved through the Budget Facility for Infrastructure.

Framework correction: omission of conditions for Budget Facility for Infrastructure

- Conditions attached to the approval of Budget Facility for Infrastructure funds are added to the following grant frameworks:
  - *National Health Insurance Indirect Grant: Health Facilities Revitalisation Component*
  - *Public Transport Network Grant*
- The conditions for this funding stipulate that:
  - The additional funds can only be used for the purposes of BFI-approved projects
  - Should there be cost variations of more than 10% on each of these projects, the National Treasury must be informed within 30 days

Reprioritisations in the National Health Insurance Indirect Grant

- To address the critical staff shortages R350 million is reprioritised within the national health insurance indirect grant to pay for hiring additional healthcare professionals.
  - These funds are allocated through a new *Human Resource Capacitation Component*
  - The national Department of Health will oversee the procurement process necessary to ensure the right healthcare specialists are appointed onto the public health platform.
- R150 million is reprioritised from the *Health Facility Revitilisation Component* of this grant for the procurement of beds and linen to improve the functionality of health facilities.
  - These funds will be allocated in a new *Beds And Laundry Services Component*
- To deal with emergency maintenance needs in the Northern Cape, R42 million is converted from the *National Health Insurance Indirect Grant: Health Facility Revitilisation Component* to the direct Health Facility Revitilisation Grant
- To facilitate the smooth transition of the HPV vaccine programme to provinces, the *National Health Insurance Indirect Grant: Human Papillomavirus Vaccine Component* is reintroduced, with an allocation of R30 million
  - Provinces already receive a direct grant worth R200 million

Framework correction: Additional components of the NHI Indirect Grant

- Three new grant components under the *National Health Insurance Indirect Grant* will be gazetted for 2018/19. These grant components did not form part of the Division of Revenue Act, 2018:
  - *Human Papillomavirus Vaccine Component*
  - *Beds And Laundry Services Component*
  - *Human Resource Capacitation Component*

Provinces:
Other adjustments to conditional grants

Roll-overs

- R1.3 million that was committed but not spent in 2017/18, is rolled-over for the *Learners with Profound Intellectual Disabilities Grant* for the procurement of learner teacher support material for the Eastern Cape and Northern Cape
- R18.4 million is rolled-over for the *Substance Abuse Treatment Grant* to enable the completion of construction of treatment facilities in the Northern Cape and Free State

Additional allocation for the School Infrastructure Backlogs Grant

- R800 million is added to the indirect *School Infrastructure Backlogs Grant* for the completion of school infrastructure projects where plans have already been approved and are ready for implementation.

Framework corrections: Corrections to provincial government frameworks

Health Facility Revitalisation Grant

- The ‘process for 2019/20 approval of implementation plans’ section of this framework is corrected to refer to the submission of the infrastructure programme management plans for 2019/20, instead of 2018/19.

Human Papillomavirus Vaccine Grant

- The due date for the final submission of business plans for 2019/20 is corrected from 29 March 2018 to 29 March 2019.

Maths, Science And Technology Grant

- Corrected to rectify the omission of the 2016/17 audited financial outcomes.

Learners With Profound Intellectual Disabilities Grant

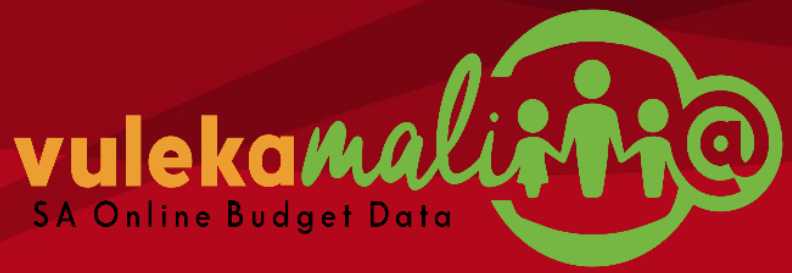
- Corrected to allow the permanent appointment of specialists that form itinerant teams.

Local government: Other adjustments to conditional grants

Conversion from indirect to direct allocations to support re-demarcation costs

- The indirect Municipal Systems Improvement Grant includes allocations to complete the integration of municipalities merged in 2016. This was previously funded through the Municipal Demarcation Transition grant, which ended in 2017/18
- R23.2 million is converted from indirect to direct allocations so that funds can be paid directly to the municipalities that have incurred these costs

THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: https://vulekamali.gov.za

For information on local government finances, please visit: https://municipalmoney.gov.za

South Africa has been ranked first, alongside New Zealand, on the 2017 Open Budget Index

The survey evaluates 115 countries on the transparency of their budgets, across a range of measures