

2019 Division of Revenue Bill

*Standing Committee on Appropriations
& Select Committee on Appropriations*

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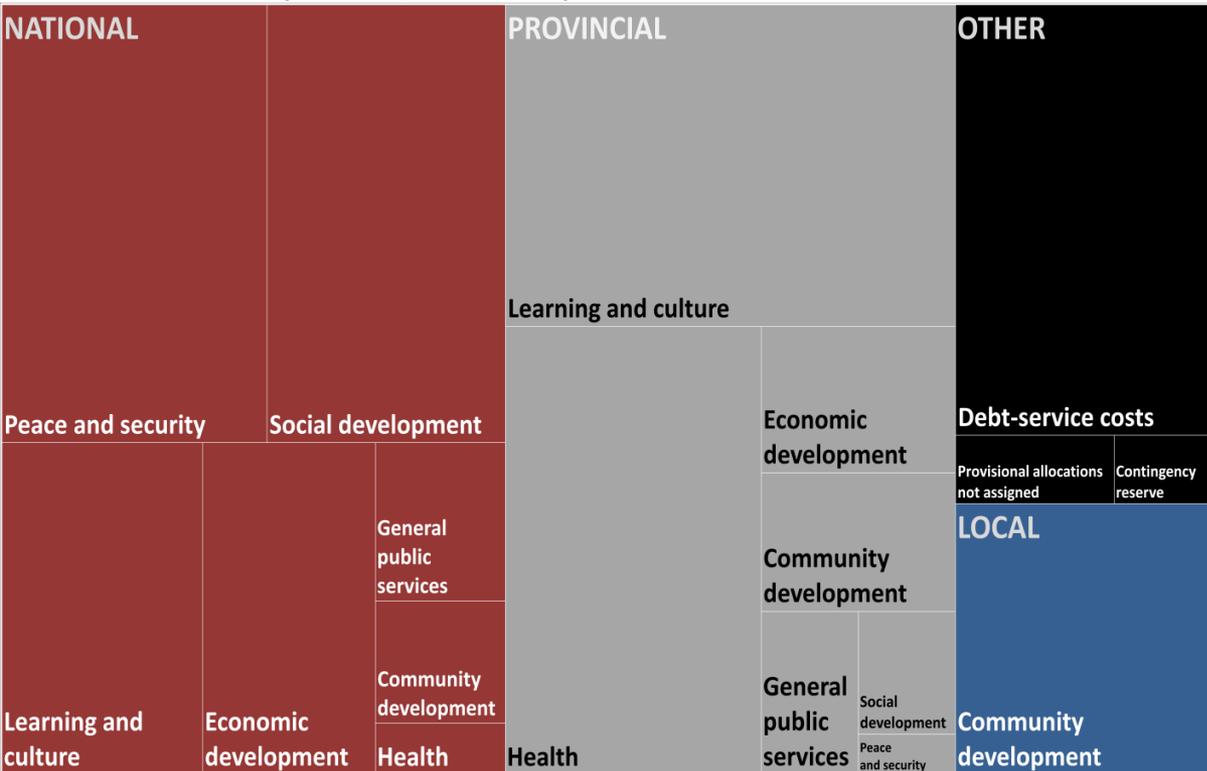
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Outline

- Overview of the Division of Revenue
- Changes to improve delivery
 - Leveraging finance and stimulating growth
 - Improving mobility on the road network
 - Expanding the impact of human settlements spending
 - Education
 - Health
 - Differentiation and incentives in local government grants
 - Capacity building and interventions
- Changes to clauses of the Bill
- Provincial allocations
- Local Government allocations
- Responses to Parliamentary recommendations on the 2018 DoRAB
- Responses to Financial and Fiscal Commission's recommendations

Division of revenue by function

Division of revenue by function, 2019 MTEF period*



*Function breakdown for provinces includes estimates of how equitable share funds will be allocated

- National and provincial government receive the largest shares of the budget because of their functions
- Local government receives the smallest share because it has significant own revenue raising powers
- Over the medium term government will spend 62 per cent more on debt service costs than transfers to local government
- Government is committed to moving towards a primary balance, reducing the need to borrow funds and incur interest costs

2019 MTEF Division of Revenue

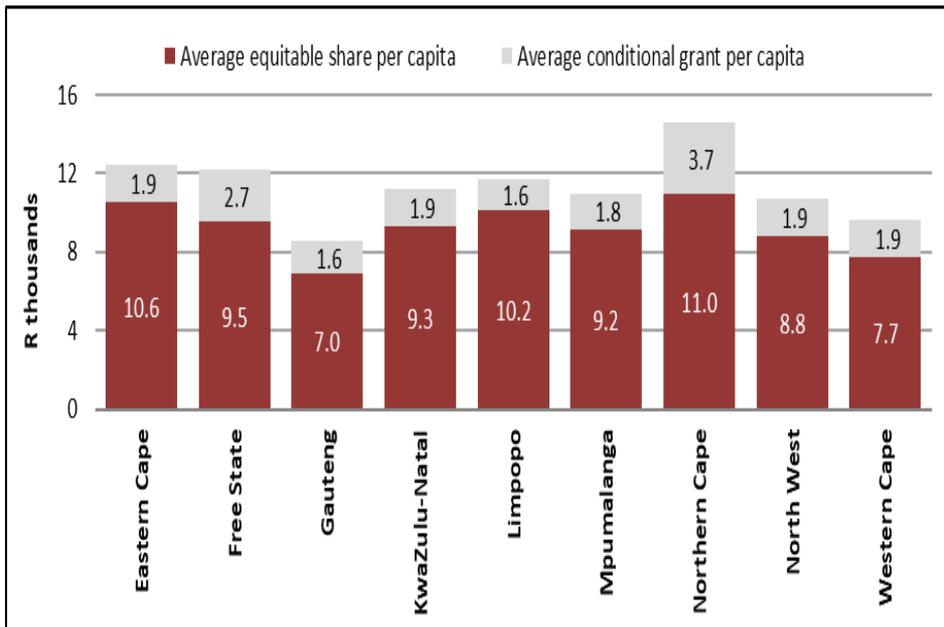
| Division of nationally raised revenue | 2019/20 | 2020/21 | 2021/22 | Average annual MTEF growth |
|---|-----------------------|---------|---------|----------------------------|
| | Medium-term estimates | | | |
| R billion | | | | |
| Division of available funds | | | | |
| National departments | 684.7 | 733.1 | 777.7 | 6.8% |
| <i>of which:</i> | | | | |
| <i>Indirect transfers to provinces</i> | 4.6 | 5.0 | 5.7 | 6.3% |
| <i>Indirect transfers to local government</i> | 7.2 | 7.1 | 8.2 | 1.2% |
| Provinces | 612.3 | 657.1 | 701.0 | 7.0% |
| Equitable share | 505.6 | 542.9 | 578.6 | 7.2% |
| Conditional grants | 106.7 | 114.2 | 122.4 | 6.3% |
| Local government | 127.3 | 137.9 | 149.5 | 8.4% |
| Equitable share | 69.0 | 75.7 | 82.2 | 10.7% |
| Conditional grants | 45.1 | 48.2 | 52.2 | 5.6% |
| General fuel levy sharing with metros | 13.2 | 14.0 | 15.2 | 6.8% |
| Provisional allocation not assigned to votes | 19.2 | 11.4 | 18.9 | |
| Non-interest allocations | 1 443.5 | 1 539.5 | 1 647.1 | 7.5% |
| Debt-service costs | 202.2 | 224.1 | 247.4 | 10.7% |
| Contingency reserve | 13.0 | 6.0 | 6.0 | |
| Main budget expenditure | 1 658.7 | 1 769.6 | 1 900.5 | 8.0% |
| <i>Percentage shares</i> | | | | |
| <i>National departments</i> | 48.1% | 48.0% | 47.8% | |
| <i>Provinces</i> | 43.0% | 43.0% | 43.1% | |
| <i>Local government</i> | 8.9% | 9.0% | 9.2% | |

Source: National Treasury

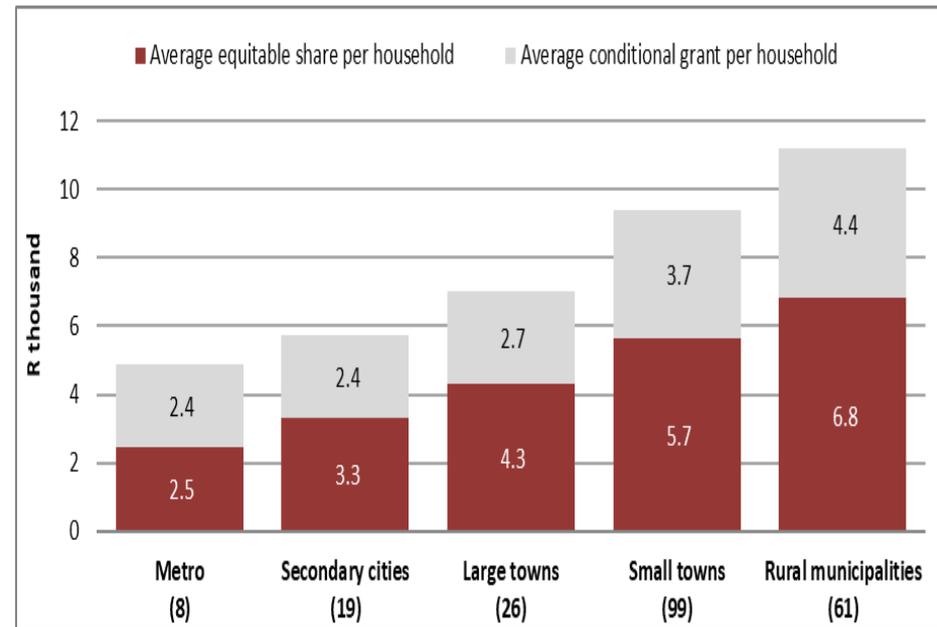
- Average annual growth is above inflation for all three spheres over the 2019 MTEF
- To manage the growth of government debt, while funding priorities (including Eskom), some transfers have been reduced:
 - Important public spending programmes have been protected from major reductions
 - The bulk of the reduction in the provincial transfers (R3bn) has come from the Human Settlements Development Grant which has a history of poor performance
 - The reduction of R132.8 million from the provincial equitable share is offset by a salary freeze for provincial political office bearers
 - Reduction of R500 million in 2020/21 from the Integrated National Electrification Programme (Eskom) Grant, an indirect grant with a large baseline to absorb the cut
- Reductions are far smaller than in 2018 MTEF

The DoR is highly redistributive in favour of rural areas

Provincial transfers per capita, 2019/20



Local government transfers per household, 2019/20



- South Africa's tax base is concentrated in urban areas
- However, the allocations through the Division of Revenue transfer higher per capita/per household amounts to rural areas
 - Allocations to rural municipalities of R11 200 per HH is more than twice as much as to metros (R4 900), due to metros' higher own revenue raising abilities

CHANGES TO IMPROVE DELIVERY OVER THE 2019 MTEF



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Leveraging finance and facilitating growth

- Government is committed to partnering with the private sector to overcome public sector challenges and stimulate growth enhancing sectors
- 2 examples of how blending conditional grant funds can leverage private financing:
 - The **Energy Efficiency and Demand Side Grant** has been redesigned to allow grant funds to develop a project pipeline and create a new market for private investors to scale-up retrofitting energy efficiency technology in public infrastructure. Savings on the cost of energy will finance the upgrades
 - Funding from the **Comprehensive Agricultural Support Programme Grant** has been reprioritised to subsidise Land Bank loans to emerging commercial farmers so that they can enter the loan market at a cheaper rate and expand production
- The **Budget Facility for Infrastructure** was created to improve infrastructure planning and delivery. Funds for 2 projects are allocated through conditional grants
 - Limpopo Academic Hospital - this will enhance health infrastructure in the province, improve tertiary healthcare services in the region and increase training capacity in the country (R1.4 billion added to the National Health Insurance Indirect Grant over the 2019 MTEF)
 - MyCiti Phase 2A – this project seeks to connect under-served areas of Cape Town to economic opportunities through improved public transport (R2.8 billion added to the Public Transport Network Grant over the 2019 MTEF)

Improving mobility on our roads

(Responds to issues raised in the 2018 DoRB hearings)



- The condition of roads in many areas is in crisis due to years of poor maintenance
 - This is despite large allocations. Over the MTEF SANRAL is allocated R42.9 billion; Provincial Road Maintenance Grant (PRMG) is allocated R36.5 billion; and MIG’s roads component is R7.9 billion (municipalities also have property rates and the fuel levy sharing)
- To improve the impact of spending on road maintenance, provinces and municipalities are being supported to **develop and use road asset management systems** (similar to SANRAL) to guide where maintenance should be prioritised
 - **PRMG incentive:** Promotes effective use of data in maximising the impact of maintenance spending. The “coal haulage” allocation comes to an end in 2019/20. These funds will be added to the PRMG incentive
 - **Rural Roads Asset Management Systems Grant and MIG:** Improved use of RRAMS data will allow more MIG funds to be used for road maintenance
 - A **R1 billion provisional allocation** in 2021/22 is available for improved road maintenance
- Government is prioritising investment where the system already works:
 - R3.5 billion has been added to SANRAL in the next two years for upgrading, maintenance and strengthening of non-toll roads
 - Over the MTEF, SANRAL is allocated R3.3 billion for upgrading of Moloto Road and R3.2 billion for construction of the N2 Wild Coast highway

Expanding the impact of human settlements spending

To improve the living standards of more South Africans, the Budget shifts some funds from government-subsidised units to broader housing market interventions with lower unit costs

Finance Linked Individual Subsidy Programme

- Supports individual home-buyers in the affordable housing sector
- Administration and funding of the subsidies shifted to the National Housing Finance Corporation

Informal settlements upgrading

- In 2019/20 ‘Upgrading of Informal Settlements Programme’ windows are introduced in the Human Settlements Development Grant (HSDG) for provinces and Urban Settlements Development Grant (USDG) for municipalities:
 - Equivalent to 15 per cent and 20 per cent of each grant respectively
 - Requires a **partnership approach** that promotes **community ownership and participation** in the upgrades
 - Drawing on the lessons learnt from implementing the grant windows in 2019/20, two new informal settlements upgrading grants will be introduced from 2020/21 (equivalent to 30% of the HSDG and 50% of the USDG by 2021/22)

Title Deeds Restoration Grant

- Accelerates the backlog eradication process, with a baseline of R1.1 billion over the first two years of the 2019 MTEF period. From 2021/22 the funds from this grant will be phased back into the HSDG

Improving conditions for learning and teaching

Every learner needs decent conditions in order to be able to learn

Sanitary dignity

- In 2019/20, R157 million is added to the provincial equitable share to expand the roll-out of the Sanitary Dignity Project for learners from disadvantaged backgrounds

School sanitation

- An additional R2.8 billion over the 2019 MTEF period has been allocated to the School Infrastructure Backlogs Grant for the Department of Basic Education to use for the eradication of unsafe and inappropriate sanitation facilities in schools

School infrastructure

- In 2019/20, R200 million has been earmarked in the Education Infrastructure Grant for KwaZulu-Natal and the Western Cape to reconstruct and rehabilitate school infrastructure affected by natural disasters

Improving the health system

The grant system is responding to the need to improve the delivery of healthcare

Human Resource Capacitation Grant

- We need more doctors and nurses and other health professionals to improve services
- This grant, previously a component within the NHI indirect grant announced in the 2018 MTBPS, will now be transferred as a direct grant with an allocation of R2.8 billion over the 2019 MTEF
- The grant will enable provincial departments to fill critical posts which have been jointly prioritised by provincial departments and the national department of health

HIV, TB, Malaria and Community Outreach Grant

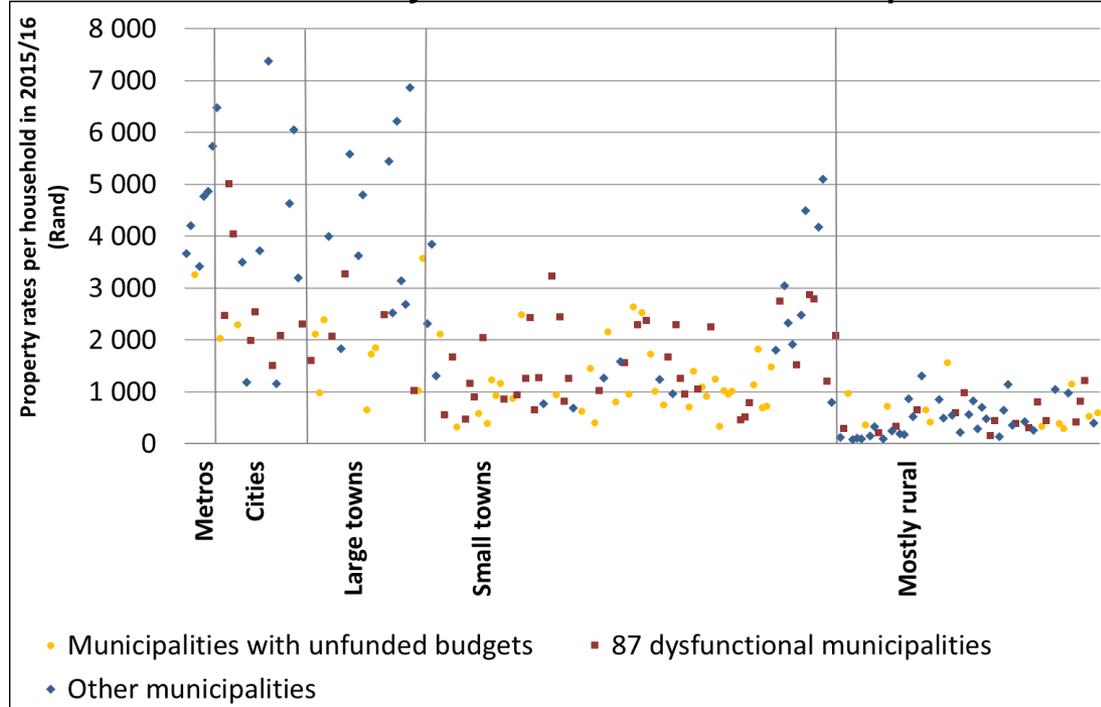
- Two new components are added to the grant
 - Malaria component to strengthen the fight against malaria in three provinces (R318 million over the 2019 MTEF for Limpopo, Mpumalanga and KwaZulu-Natal)
 - TB component to enable improved monitoring of activities and outcomes of the TB portion of the grant (R1.5 billion over the 2019 MTEF)
 - A new component (Community Outreach) is added to the grant to explicitly earmark support for community health workers

Increasing differentiation in local government grants and incentivising performance

3 general infrastructure grants for different types of municipalities:

- Urban Settlements Development Grant
 - Supplementary grant for metros
 - Electrification funds consolidated in 19/20
- Integrated Urban Development Grant (IUDG)
 - New application-based grant for intermediate cities. 7 cities in 2019/20
 - Flexibility to plan an integrated programme of infrastructure projects and blend grant funds with their own funds
- Municipal Infrastructure Grant
 - Greater support and oversight for rural

Performance varies widely within urban and rural municipalities



New incentive components to promote improved performance *(details in annexure)*

Public Transport Network Grant incentivises:

- Ridership (number of residents using the systems)
- Commitment to subsidise from own revenues
- % of costs covered by fare revenue

Cities must spend 80% of the grant to qualify

IUDG incentivises:

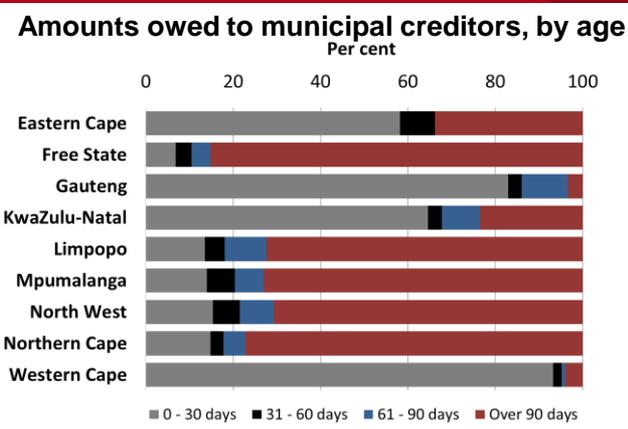
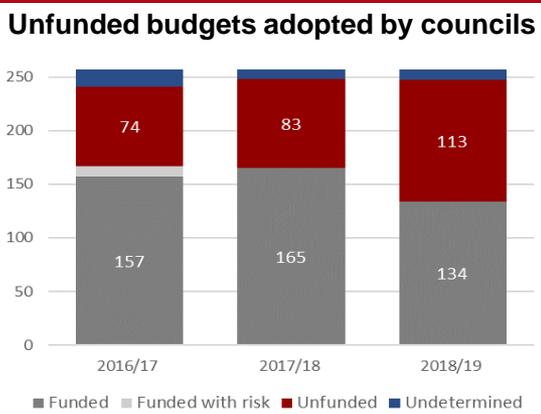
- Non-grant funding for infrastructure (3 cities fund over 70% of Capex from non-grant funds)
- Maintenance and asset management

Qualification criteria include: management stability, audit findings, capital spending and reporting

Improving municipal capacity support and interventions

(Responds to SCOA and SeCOA recommendations on the 2018 DoRB)

- Many municipalities are in financial crisis
- Government has a plan to improve the effectiveness of our response, in line with the mandates in the Constitution
- Section 154 of the Constitution requires provincial and national governments to support and strengthen the capacity of municipalities to manage their own affairs
 - Despite spending over R2.5 billion a year on capacity support, there is no evidence of a sustained improvement in performance
 - This system of support will be reviewed during 2019 and reformed and improved thereafter
- Section 139(5) of the Constitution says that when a municipality is in financial crisis other spheres must intervene
 - The 2019 Budget allocates R10 million per province to improve their capacity to manage interventions and funds improved capacity for National Treasury to develop and enforce financial recovery plans



DIVISION OF REVENUE BILL CLAUSES



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Division of Revenue Bill Clauses

- The clauses of the Division of Revenue Bill govern the allocation and transfer of funds, reporting requirements, setting of conditions, enforcement mechanisms and in-year changes (among others)
- Most of the clauses remain the same annually
- Technical refinements to the Bill clauses are summarised in the annexure

Policy adjustment

- Formalising the status of responsibilities of departments other than transferring officers:
 - The successful management of conditional grants often requires the collaboration of several departments, but there is currently no binding requirement for the responsibilities placed on other national or provincial departments in a grant framework
 - These responsibilities are now formally provided for in clauses 9(4) and 10(11)
 - A new clause 27(2)(b) also requires that the transferring officer must consult any other department that has responsibilities listed in a grant, before submitting the draft framework to National Treasury

PROVINCIAL ALLOCATIONS



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Transfers to provinces

Total transfers to provinces, 2019/20

| R million | Equitable share | Conditional grants | Total transfers |
|----------------|-----------------|--------------------|-----------------|
| Eastern Cape | 68 824 | 12 079 | 80 903 |
| Free State | 28 187 | 7 863 | 36 049 |
| Gauteng | 102 448 | 23 077 | 125 525 |
| Kw aZulu-Natal | 106 014 | 21 137 | 127 151 |
| Limpopo | 58 965 | 9 061 | 68 026 |
| Mpumalanga | 41 428 | 8 245 | 49 673 |
| Northern Cape | 13 424 | 4 483 | 17 907 |
| North West | 34 973 | 7 551 | 42 524 |
| Western Cape | 51 291 | 12 809 | 64 099 |
| Unallocated | – | 408 | 408 |
| Total | 505 554 | 106 712 | 612 266 |

- The provincial equitable share grows faster than conditional grants over the MTEF, giving provinces greater flexibility in budgeting for their priorities
 - Equitable share grows at 7.2% a year
 - Grants grow at 6.3% a year
- Changes since the 2018 MTBPS have been described in the preceding slides
- Details of allocations are listed in the annexures

Provincial Equitable Share (PES) formula

- The PES accounts for 82,5% of transfers to provinces and is allocated through a formula based primarily on demand for public services in each province
- The data used is updated annually to reflect changes in relative demand across provinces
- Updated shares per province are provided in the annexures

How the PES formula accounts for demand for services



Education (48%)

Allocated based on:

- School aged population (updated*)
- Enrolled pupils (updated LURITS data from DBE)



Health (27%)

Allocated based on:

- Population without medical aid, adjusted for health risk (updated*)
- Hospital and clinic use (updated DoH data)



Basic Share (16%)

Allocated based on:

- Share of population*



Poverty (3%)

Allocated based on:

- Share of poverty* (IES and mid-year estimates)



Institutional (5%)

Same allocation to each province



Economic activity (1%)

Based on share of GDP-R (updated StatsSA data)

* Updated with data from StatsSA's mid-year population estimates

Provincial Equitable Share (PES) formula review

- The PES formula continues to be reviewed in collaboration with provincial treasuries and the FFC (and taking account of parliamentary recommendations and inputs from other stakeholders, including NGOs)
- The review team has agreed to principles for the formula
- In the 2018 and 2019 MTEFs, major changes are being phased-in to improve the data in the education component (accounting for nearly half the PES):
 - School enrolment data is now based on DBE’s new LURITS database which tracks learners through the education system and is more accurate than the previous surveys used (the quality of LURITS data continues to improve)
 - Data for the size of the school-aged population has been changed from the 2011 Census to the annually updated StatsSA Mid-Year Population Estimates
- National Treasury will update Parliament on progress with the review of other formula components in the 2019 MTBPS

Principles for the PES Formula

- Equitable and fair
- Objective and Impartial
- Responsive (Dynamic)
- Stable and predictable
- Robust and sustainable
- Based on assigned functions
- Avoid perverse incentives
- Transparent and simple
- Consistent with policy
- High-quality data that is official, frequent, reliable, valid and verifiable

LOCAL GOVERNMENT ALLOCATIONS



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Transfers to local government

Total transfers to local government, 2019 MTEF

| R million | 2018/19 Adjusted budget | 2019/20 Medium-term estimates | 2020/21 Medium-term estimates | 2021/22 Medium-term estimates |
|---|-------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Direct transfers | 119 971 | 127 289 | 137 881 | 149 498 |
| Equitable share and related | 62 732 | 68 973 | 75 683 | 82 162 |
| Equitable share formula ¹ | 56 722 | 62 648 | 69 017 | 75 136 |
| RSC levy replacement | 5 073 | 5 357 | 5 652 | 5 963 |
| Support for councillor remuneration and ward committees | 937 | 969 | 1 015 | 1 064 |
| General fuel levy sharing with metros | 12 469 | 13 167 | 14 027 | 15 182 |
| Conditional grants | 44 771 | 45 149 | 48 171 | 52 154 |
| Infrastructure | 42 919 | 43 252 | 46 167 | 50 039 |
| Capacity building and other | 1 851 | 1 897 | 2 004 | 2 115 |
| Indirect transfers | 7 887 | 7 208 | 7 109 | 8 167 |
| Infrastructure | 7 795 | 7 087 | 6 981 | 8 032 |
| Capacity building and other | 92 | 122 | 128 | 135 |
| Total | 127 858 | 134 497 | 144 990 | 157 666 |

- The only change to direct transfers since the MTBPS is the allocation of R60.2 million for disaster repairs in Joe Gqabi DM in the Eastern Cape (shifted from incentive component in the Integrated Urban Development Grant)
- Details of allocations are listed in the annexures

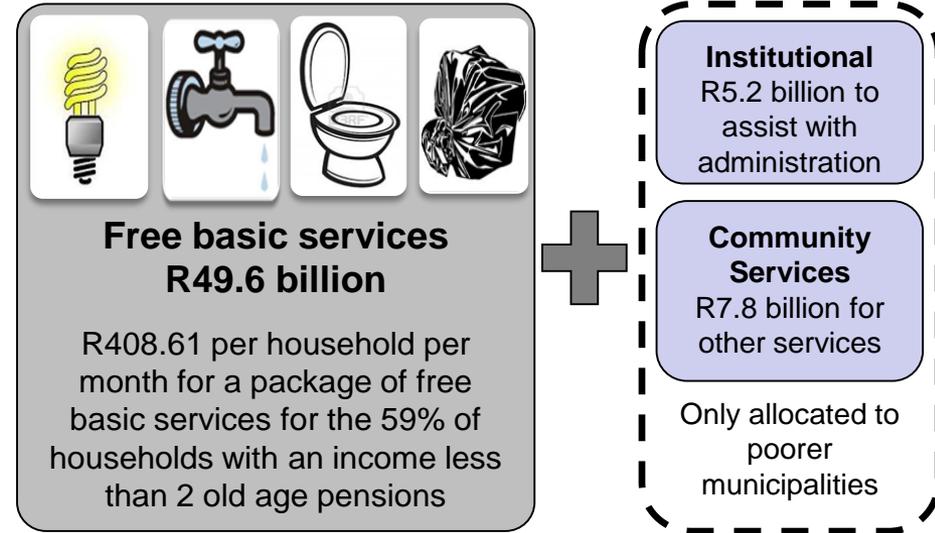
Correction to Energy Efficiency and Demand Side Management Grant allocations

- The Department of Energy submitted incorrect allocations to National Treasury
- We request the Committees to recommend that the correct allocations are gazetted (as per the letter from the Department of Energy provided to the Committee)

Local government equitable share (LGES) formula updates

- Formula has updated data for:
 - Household growth: 2.9% growth in StatsSA's 2017 General Household Survey (improved projections show slower growth than previously assumed)
 - Bulk water: 9.9% average water board bulk price increases
 - Bulk electricity: 8% based on last approved Multi-Year Price Determination (MYPD)
 - Projected CPI for other costs
- If bulk electricity increases are higher for 2019/20 these should be offset against above-cost increases allocated in previous years*

How the local government equitable share formula works



Faster growth in LGES allocations is equivalent to billions in additional funds

| R millions and per cent | 2019/20 | 2020/21 | 2021/22 |
|---|--------------|--------------|--------------|
| LGES allocations | 68 973 | 75 683 | 82 162 |
| LGES annual growth | 9,9% | 9,7% | 8,6% |
| "Baseline" growth for rest of budget | 5,6% | 5,5% | 5,5% |
| Value of LGES growth vs baseline growth in each year | 2 729 | 2 916 | 2 316 |

RESPONSES TO RECOMMENDATIONS ON THE DIVISION OF REVENUE

- *Responses to SCOA and SeCOA recommendations on the 2018 Division of Revenue Amendment Bill (as contained in Annexure A to the 2019 Budget Review)*
- *Responses to FFC recommendations*



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SCOA and SeCOA recommendation on the 2018 Division of Revenue Amendment Bill

Committees Recommendation

Minister's Response

In-year revision of conditional grant frameworks

The Minister of Finance should ensure that National Treasury gazettes the corrections to the Conditional Grant Frameworks as well as the New Conditional Grant Frameworks as set out in annexures 2 and 3 of the Bill, in accordance with section 16(4) of the Division of Revenue Act, 2018.

- The corrections were implemented as recommended by Parliament.

SeCOA recommendation on 2018 Division of Revenue Amendment Bill

Committee Recommendation

Minister's Response

Municipal Standard Chart of Accounts (mSCOA)

The Committee is of the view that any financial or accounting reform should result in an effective and efficient municipal environment. The Committee recommends that, as required by Section 34 of the MFMA, National Treasury and provincial treasuries, together with Salga (as a recognised organised local government association in terms of Section 163(a) of the Constitution), provide support and ensure that there is necessary capacity to maintain and operationalise the Municipal Standard Chart of Accounts systems with immediate effect.

- The municipal standard chart of accounts is a key reform for improving efficiency in municipalities. All municipalities had to implement the standard by 1 July 2017.
- The National Treasury continues to provide extensive support for this reform, including appointing advisors to help provincial treasuries assist municipalities, providing guidance on implementation issues (including budgeting, transacting, reporting and preparing for audits), issuing annual changes to improve the chart, responding to queries and providing training to all stakeholders.

Responses to FFC Recommendations



- The FFC makes recommendations annually on the division of revenue (DoR) and Government responds to these recommendations in Annexure W1 of the Budget Review
 - Government responses in Annexure W1 only contain those that are directly or indirectly related to the Division of Revenue (DoR) (as per requirements of Intergovernmental Fiscal Relations Act)
 - Other recommendations have been formally forwarded to the relevant departments for them to respond to the Commission
- Government agrees with the broad themes and general thrust of the FFCs recommendations that relate to the DoR and we agree to many of the specific recommendations, however there are some areas where government can only partially agree with the proposals made by the FFC

Summary of recommendations and responses (1 of 4)



Government broadly agrees with the FFC recommendations that are related to the Division of Revenue

- To improve service delivery and attainment of specific priority outcomes, develop and strengthen control measures and take decisive action as soon as cases of inefficient and/or ineffective use of funds are detected

Government supports this recommendation. In line with the recommendation, government has shifted towards monitoring outcomes and outputs, rather than inputs and activities. This reflects a shift towards monitoring the outcomes achieved through the programmes funded by grants, rather than project-by-project monitoring

- Give municipalities greater flexibility in the use of grants to encourage innovative approaches to resolving local problems

Government agrees on the principle of promoting local solutions to local problems. Because not all municipalities are able to take advantage of increased flexibility to innovate, government has adopted a differentiated approach that allows greater flexibility for well capacitated municipalities; and the necessary support to the weaker capacitated

- The allocation of conditional grants be made conditional on the employment of appropriately qualified staff with commensurate mandates

Government support this recommendation in principle. The possibility of including such provisions in the grant frameworks can be explored with the relevant grant administering departments, but must be balanced with the need to ensure equity in allocations

Summary of recommendations and responses (2 of 4)



- Introduce a fiscal capacity component that encompasses the revenue-raising effort of municipalities and captures the redistributive element of addressing horizontal imbalances into the equitable share formula to make it more efficient and incentivising

Government addressed this recommendation when the FFC, SALGA, and DCOG reviewed the equitable share formula during 2012. The Constitution does not allow national government to reduce transfers to a municipality based on their success in collecting their own revenues. The redistributive element is already addressed in the LGES formula allocations through the community and institutional components

- The national sector departments of Education, Health and Public Transport develop clear performance evaluation frameworks for the provincial infrastructure grants under their control

Government welcomes this recommendation. National Treasury in collaboration with the Department of Planning, Monitoring and Evaluation will consult grant administering sector departments on the development of such a framework for all infrastructure grants, for implementation in the 2020 Budget

- Set and publish the criteria to be measured in monitoring and evaluating infrastructure grants as well as publish the assessment criteria regarding infrastructure cuts

The DoRA clauses set broad parameters for grant monitoring and evaluation with grant specific frameworks detailing the outputs to be delivered and conditions to be met which each grant administrator monitors and evaluates performance against. The details of each reduction in the 2019 MTEF are set out in parts 4 and 5 of the explanatory memorandum to the division of revenue, 2019

Summary of recommendations and responses (3 of 4)



- A review of basic norms and standards for water services and the associated LGES be undertaken by the Department of Water and Sanitation (DWS)

Government acknowledges this recommendation. The water subsidy in the basic services component of the LGES is determined on the basis of the Free Basic Water Policy (2001). The Department of Cooperative Governance (DCoG) is intending to review the national Indigence Policy Framework, including the policy on provision of free basic water

- Clearer statements of grant objectives to achieve defined basic service levels or sustainability of services are established by the DWS

Conditional grants fund existing government policy but do not in themselves prescribe what levels of service should be provided. This is however an issue to be addressed by the Department of Water and Sanitation's on-going National Water Policy Review

- Department of Water and Sanitation to resume publishing the Blue Drop reports and transfer grant funds only to municipalities that can show that there is a feasible programme to achieve compliance with standards

Government welcomes this recommendation and in its Master Plan, the Department of Water and Sanitation has undertaken to resume publishing the Blue Drop report

- Continue the efforts to enhance the quality of municipal reporting, with an emphasis on coordinating reporting requirements

Government welcomes this recommendation. The publication of new municipal reporting requirements for metropolitan municipalities in MFMA circular 88 is a major step towards achieving more coordinated reporting and will in future be rolled out to non-metropolitan municipalities

Summary of recommendations and responses (4 of 4)



- Stronger conditions be attached to financial transfers to ensure compliance and that funds allocated are properly spent for the purposes indicated. Withhold grant funds from municipalities that do not have the necessary measures to monitor and control water consumption, or which do not meet criteria or have valid abstraction licences

Government agrees with the importance of implementing conditions necessary to ensure funds are spent for their intended purpose. Withholding is one of the tools available to ensure compliance to such conditions. Low water consumption levels and adherence to abstraction licences are not currently required in grant frameworks but the National Treasury will engage the Department of Water and Sanitation on the appropriateness of including such conditions in future

There is one recommendation that government only partly agrees with:

- Ensure that the frameworks for Health Facility Revitalisation Grant and National Health Insurance (non-personnel component) accommodate flexibility during periods of protracted fiscal constraint so that provinces use their available capital allocations towards maintenance

Both grants currently make provision for maintenance. However as health facilities are assets owned and operated by provincial governments, provinces must budget for and prioritise the maintenance of these assets from their own revenues and not depend entirely on transfers from national government to fund this core function of provincial governments

THANK YOU



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ANNEXURES

- *Technical refinements to Bill clauses*
- *Details of transfers to provinces and municipalities*
- *New incentive components in municipal grants*



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Technical Refinements to the Division of Revenue Bill Clauses

Technical refinements

- A number of technical changes have been made to the Bill. These include:
 - improving the alignment of the definitions and timelines used in this Bill for disaster relief funding with those in the Disaster Management Act, 2002 (Act No. 57 of 2002);
 - increasing the number of reports that must be shared with provincial treasuries;
 - clarifying that agreements referred to in the Bill must be in writing;
 - extending the timeframe for reporting on local government conditional grants from 15 to 20 days after the end of each month;
 - improving alignment with National Treasury’s Classification Circular 21;
 - requiring an agreement on the terms for any transfer of grant funds by a receiving officer to another organ of state;
 - expanding the list of direct grants that allocations from the National Health Insurance Indirect Grant can be converted to;
 - adding a requirement for National Treasury to approve any further municipalities added to the Integrated Urban Development Grant;
 - including references to the Appropriations Act in the clause governing transfers prior to the commencement of the Division of Revenue Act for 2020/21; and
 - requiring that the future cost of maintenance must be included in the agreement between district and local municipalities on the future funding of the operation of new infrastructure.

Provincial equitable share (PES) formula

Distributing the equitable share per province, updated component shares

| | Education | Health | Basic share | Poverty | Economic activity | Institutional | Weighted average |
|---------------|---------------|---------------|---------------|---------------|-------------------|---------------|------------------|
| | 48,0% | 27,0% | 16,0% | 3,0% | 1,0% | 5,0% | 100,0% |
| Eastern Cape | 14,5% | 12,3% | 11,3% | 14,7% | 7,6% | 11,1% | 13,2% |
| Free State | 5,3% | 5,4% | 5,1% | 5,3% | 5,0% | 11,1% | 5,6% |
| Gauteng | 18,7% | 23,6% | 25,5% | 18,4% | 34,6% | 11,1% | 20,9% |
| KwaZulu-Natal | 22,0% | 21,0% | 19,7% | 22,4% | 15,9% | 11,1% | 20,8% |
| Limpopo | 12,9% | 10,1% | 10,0% | 13,3% | 7,2% | 11,1% | 11,5% |
| Mpumalanga | 8,4% | 7,4% | 7,8% | 9,3% | 7,4% | 11,1% | 8,2% |
| Northern Cape | 2,3% | 2,1% | 2,1% | 2,2% | 2,1% | 11,1% | 2,6% |
| North West | 6,6% | 6,7% | 6,9% | 8,3% | 6,4% | 11,1% | 7,0% |
| Western Cape | 9,2% | 11,4% | 11,5% | 6,3% | 13,7% | 11,1% | 10,2% |
| Total | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% |

Provincial conditional grants (1 of 2)

| R million | 2018/19 Adjusted budget | 2019/20 | 2020/21 | 2021/22 | MTEF total |
|--|-------------------------------|---------------|---------------|---------------|----------------|
| Agriculture, Forestry and Fisheries | 2 849 | 2 204 | 2 378 | 2 558 | 7 140 |
| Comprehensive agricultural support programme | 2 019 | 1 538 | 1 676 | 1 814 | 5 028 |
| Ilima/Letsema projects | 552 | 583 | 615 | 653 | 1 852 |
| Land care programme: poverty relief and infrastructure development | 278 | 82 | 87 | 92 | 261 |
| Arts and Culture | 1 424 | 1 501 | 1 584 | 1 679 | 4 764 |
| Community library services | 1 424 | 1 501 | 1 584 | 1 679 | 4 764 |
| Basic Education | 17 696 | 18 569 | 20 089 | 21 470 | 60 128 |
| Education infrastructure | 10 094 | 10 514 | 11 467 | 12 327 | 34 308 |
| HIV and AIDS (life skills education) | 243 | 257 | 271 | 286 | 813 |
| Learners with profound intellectual disabilities | 187 | 221 | 243 | 256 | 720 |
| Maths, science and technology | 370 | 391 | 413 | 436 | 1 241 |
| National school nutrition programme | 6 802 | 7 186 | 7 696 | 8 165 | 23 047 |
| Cooperative Governance and Traditional Affairs | 340 | 131 | 138 | 146 | 415 |
| Provincial disaster relief | 324 | 131 | 138 | 146 | 415 |
| Provincial disaster recovery | 16 | – | – | – | – |
| Health | 41 364 | 44 989 | 49 225 | 54 088 | 148 302 |
| HIV, TB, malaria and community outreach | 19 922 | 22 039 | 24 408 | 27 753 | 74 200 |
| Health facility revitalisation | 6 057 | 6 007 | 6 360 | 6 858 | 19 225 |
| Health professions training and development | 2 784 | 2 940 | 3 102 | 3 273 | 9 315 |
| Human papillomavirus vaccine | 200 | 211 | 223 | 235 | 669 |
| Human resources capacitation | – | 606 | 1 063 | 1 127 | 2 796 |
| National tertiary services | 12 401 | 13 186 | 14 069 | 14 843 | 42 097 |

Provincial conditional grants (2 of 2)

| | 2018/19 Adjusted budget | 2019/20 | 2020/21 | 2021/22 | MTEF total |
|---|-------------------------------|----------------|----------------|----------------|----------------|
| R million | | | | | |
| Human Settlements | 19 045 | 19 604 | 19 825 | 20 030 | 59 459 |
| Human settlements development | 18 267 | 18 780 | 15 937 | 15 397 | 50 114 |
| Title deeds restoration | 519 | 548 | 578 | – | 1 126 |
| Provincial emergency housing | 260 | 277 | 295 | 311 | 883 |
| Informal settlements upgrading partnership | – | – | 3 015 | 4 322 | 7 337 |
| Public Works | 824 | 868 | 917 | 968 | 2 753 |
| Expanded public works programme integrated grant for provinces | 416 | 437 | 462 | 489 | 1 389 |
| Social sector expanded public works programme incentive for provinces | 408 | 431 | 454 | 479 | 1 365 |
| Social Development | 777 | 518 | 553 | 583 | 1 655 |
| Early childhood development | 491 | 518 | 553 | 583 | 1 655 |
| Social worker employment | 197 | – | – | – | – |
| Substance abuse treatment | 89 | – | – | – | – |
| Sport and Recreation South Africa | 587 | 620 | 654 | 690 | 1 964 |
| Mass participation and sport development | 587 | 620 | 654 | 690 | 1 964 |
| Transport | 17 026 | 17 707 | 18 843 | 20 142 | 56 692 |
| Provincial roads maintenance | 11 036 | 11 382 | 12 093 | 13 021 | 36 496 |
| Public transport operations | 5 990 | 6 326 | 6 750 | 7 121 | 20 196 |
| Total direct conditional allocations | 101 932 | 106 712 | 114 206 | 122 355 | 343 274 |
| Indirect transfers | 4 730 | 4 561 | 4 980 | 5 675 | 15 216 |
| Basic Education | 2 272 | 2 027 | 1 769 | 2 339 | 6 135 |
| School infrastructure backlogs | 2 272 | 2 027 | 1 769 | 2 339 | 6 135 |
| Health | 2 458 | 2 534 | 3 211 | 3 336 | 9 081 |
| National health insurance indirect | 2 458 | 2 534 | 3 211 | 3 336 | 9 081 |



Local government infrastructure grants

| | 2018/19 Adjusted budget | 2019/20 Medium-term estimates | 2020/21 | 2021/22 |
|---|-------------------------------|----------------------------------|---------------|---------------|
| R million | | | | |
| Direct transfers | 42 919 | 43 252 | 46 167 | 50 039 |
| Municipal infrastructure | 15 288 | 14 816 | 15 660 | 16 831 |
| Integrated urban development | – | 857 | 939 | 1 013 |
| Urban settlements development | 11 306 | 12 045 | 9 717 | 9 373 |
| Informal settlements upgrading partnership | – | – | 2 985 | 4 384 |
| Integrated city development | 294 | 310 | 327 | 352 |
| Public transport network | 6 287 | 6 468 | 7 495 | 8 367 |
| Neighbourhood development partnership | 602 | 621 | 655 | 704 |
| Integrated national electrification programme | 1 904 | 1 863 | 1 977 | 2 131 |
| Rural roads asset management systems | 108 | 114 | 120 | 127 |
| Regional bulk infrastructure | 1 957 | 2 066 | 2 180 | 2 344 |
| Water services infrastructure | 3 769 | 3 669 | 3 871 | 4 161 |
| Municipal disaster recovery | 1 190 | 194 | – | – |
| Energy efficiency and demand-side management | 215 | 227 | 240 | 253 |
| Indirect transfers | 7 795 | 7 087 | 6 981 | 8 032 |
| Integrated national electrification programme | 3 262 | 3 374 | 3 063 | 3 821 |
| Neighbourhood development | 29 | 31 | 33 | 35 |
| Water services infrastructure | 1 616 | 644 | 679 | 730 |
| Regional bulk infrastructure | 2 887 | 3 038 | 3 207 | 3 447 |
| Bucket eradication | – | – | – | – |
| Total | 50 714 | 50 338 | 53 148 | 58 072 |

Local government current transfers

| R million | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|-----------------|-----------------------|--------------|--------------|
| | Adjusted budget | Medium-term estimates | | |
| Direct transfers | 1 851 | 1 897 | 2 004 | 2 115 |
| Municipal disaster relief | 349 | 335 | 354 | 373 |
| Municipal demarcation transition | – | – | – | – |
| Municipal systems improvement | 23 | – | – | – |
| Municipal human settlements capacity | – | – | – | – |
| Municipal emergency housing | 140 | 149 | 159 | 168 |
| Infrastructure skills development | 141 | 149 | 158 | 167 |
| Local government financial | 505 | 533 | 562 | 593 |
| Expanded public works programme integrated grant for municipalities | 693 | 730 | 771 | 814 |
| Indirect transfers | 92 | 122 | 128 | 135 |
| Municipal systems improvement | 92 | 122 | 128 | 135 |
| Total | 1 943 | 2 018 | 2 132 | 2 250 |

New incentive for: Public Transport Network Grant

| | Operational public transport system | Grant spent in 2017/18 | Eligible for incentive | Coverage of direct costs from farebox | Average weekday passenger trips (% of population) | City's contribution (% of property rates) | Raw scores for incentive | Incentive allocation for 2019/20 (R 000) |
|--------------------------|-------------------------------------|------------------------|------------------------|---------------------------------------|---|---|--------------------------|--|
| Minimum threshold | Yes | 80% | | 35,0% | 1% | 2% | | |
| Buffalo City | No | 26% | No | 0,0% | 0,00% | 0,0% | - | - |
| Cape Town | Yes | 100% | Yes | 41,1% | 1,48% | 5,2% | 0,287 | 160 487 |
| City of Johannesburg | Yes | 98% | Yes | 38,5% | 0,95% | 3,4% | 0,130 | 99 394 |
| City of Tshwane | Yes | 93% | Yes | 21,5% | 0,24% | 1,3% | - | - |
| Ekurhuleni | Yes | 66% | No | 16,8% | 0,13% | 2,7% | - | - |
| eThekweni | No | 67% | No | 0,0% | 0,00% | 0,0% | - | - |
| George | Yes | 100% | Yes | 41,8% | 5,61% | 4,8% | 0,555 | 45 831 |
| Mangaung | No | 63% | No | 0,0% | 0,00% | 0,0% | - | - |
| Mbombela | No | 70% | No | 0,0% | 0,00% | 0,0% | - | - |
| Msunduzi | No | 83% | No | 0,0% | 0,00% | 0,0% | - | - |
| Nelson Mandela Bay | Yes | 90% | Yes | 11,4% | 0,03% | 0,7% | - | - |
| Polokwane | No | 82% | No | 0,0% | 0,00% | 0,0% | - | - |
| Rustenburg | No | 88% | No | 0,0% | 0,00% | 0,0% | - | - |
| Total | | | | | | | 1,000 | 305 712 |

New incentive for: Integrated Urban Development Grant

| | Once-off planning allocation (R 000) | Performance incentive | | | | | Weighted score | Total incentive (R 000) | Total for incentive and planning (R 000) |
|------------------------|--------------------------------------|--|-------------------|-----------------------|---|-----|----------------|-------------------------|--|
| | | Non-grant capital as percentage of total capital spend | Maintenance spend | Asset management plan | Land use and building plans in priority areas | | | | |
| uMhlathuze | 3 205 | 72% | 10% | No | - | 70% | 29 957 | 33 162 | |
| Drakenstein | 1 054 | 82% | 6% | Yes | - | 91% | 12 854 | 13 908 | |
| Mogale City | 3 513 | 19% | 0% | No | - | 0% | - | 3 513 | |
| Polokwane ¹ | 10 144 | 41% | 0% | Yes | - | 41% | - | 10 144 | |
| Ray Nkonyeni | 1 847 | 22% | 0% | Yes | - | 30% | 7 398 | 9 244 | |
| Sol Plaatje | 1 494 | 22% | 0% | No | - | 0% | - | 1 494 | |
| Stellenbosch | 1 073 | 81% | 0% | Yes | - | 70% | 10 034 | 11 107 | |
| Total | 22 330 | | | | | | 60 242 | 82 572 | |

1. Polokwane does not qualify for an incentive allocation as it did not meet all of the qualification criteria for the grant. It remains part of the grant as it was a pilot municipality in 2018/19, but the city must implement a performance improvement plan