‹ 2020 ›
BUDGET

DIVISION OF REVENUE BILL

Select Committee on Appropriations

22 April 2020

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

Outline of the presentation

This presentation is intended to provide a **summary** of the detailed information provided in the Division of Revenue Bill and Chapter 6 and Annexures A and W1 of the Budget Review that were tabled on 26 February 2020

Presentation outline

- Context for the Division of Revenue Bill and how reductions are structured
- Highlights from the Bill: Redistribution, addressing municipal financial problems, developing a pipeline of investment-ready projects,
- Changes to Bill Clauses
- Changes to provincial allocations
- Changes to local government allocations
- Responses to SeCOA recommendations
- Proposed adjustments to aid response to COVID-19

Annexures

- Responses to SCOA Recommendations (Details in Annexure A)
- Responses to FFC Recommendations (Details in Annexure W1)
- Detail of allocations

Context for the 2020 Division of Revenue

Prior to the COVID-19 pandemic and national lockdown, South Africa already faced a tough economic climate:

- The economic outlook is weak. Real GDP is expected to grow at 0.9 per cent in 2020, 1.3 per cent in 2021 and 1.6 per cent in 2022.
- The public finances continue to deteriorate. Low growth has led to a R63.3 billion downward revision to estimates of tax revenue in 2019/20 relative to the 2019 Budget. Debt is not projected to stabilise over the medium term, and debt-service costs now absorb 15.2 per cent of main budget revenue.
- Halting the fiscal deterioration requires a combination of continued spending restraint, faster economic growth, and measures to contain financial demands from distressed state-owned companies.

How the 2020 Budget responds

- As a first step, the 2020 Budget makes net non-interest spending reductions of R156.1 billion in total over the next three years:
  - Reductions to baselines of R261 billion, which includes a R160.2 billion reduction to the wage bill of national and provincial departments, and national public entities.
  - Reallocations and additions totalling R111.1 billion, of which R60.1 billion is set aside for Eskom and South African Airways (SAA), and R24 billion for critical spending priorities.

- Allocations in the 2020 Division of Revenue Bill do not include the R160.1 billion in proposed reductions to the wage bill.
- Once negotiations with organised labour have been concluded, savings will be implemented in the 2020/21 adjustments budget and over the 2021 MTEF

Balancing fiscal consolidation and sustaining core services

- The 2020 Division of Revenue had to make large reductions to previously announced levels of transfers to provinces and municipalities, while protecting funding for social services

Type of service being funded	Main source of funding	Type of reduction	Impact in the budget
Ongoing social services like healthcare, basic education and provision of free basic services that incur large operating costs	Equitable shares	Small reductions that can be offset by improved efficiency	Baselines reduced, but growth rates remain high
Programmes and projects (including infrastructure delivery)	Conditional grants	Larger reductions that will require delayed rollout of some projects	Baselines reduced and lower growth rates over the MTEF

2020 BUDGET

Division of Revenue for the 2020 MTEF

- Provincial and local allocations grow above inflation
- Equitable shares grow faster than conditional grants
- Debt service costs outpace all other categories of spending
- Transfers to SOEs resulted in a higher share for national government in 2019/20
- DoR shares will change once the R160 billion in wage bill reduction is implemented (this is currently shown as part of provisional allocations – not included in DoR calculation)

Division of revenue

R billion	2019/20 Revised estimate	2020/21 Medium-term estimates	2021/22	2022/23	Average annual MTEF growth
Division of available funds					
National departments	**739.5**	**757.7**	**768.9**	**797.8**	**2.6%**
of which:					
Indirect transfers to provinces	*3.9*	*4.1*	*4.8*	*5.1*	*8.8%*
Indirect transfers to local government	*7.0*	*7.6*	*7.2*	*8.2*	*5.1%*
Provinces	**612.8**	**649.3**	**692.0**	**730.7**	**6.0%**
Equitable share	505.6	538.5	574.0	607.6	6.3%
Conditional grants	107.3	110.8	118.0	123.1	4.7%
Local government	**125.0**	**132.5**	**142.4**	**151.4**	**6.6%**
Equitable share	67.0	74.7	81.1	87.2	9.2%
Conditional grants	44.9	43.8	46.2	48.1	2.4%
General fuel levy sharing with metros	13.2	14.0	15.2	16.1	6.9%
Provisional allocation not assigned to votes[1]	–	-7.8	-16.1	-34.9	
Non-interest allocations	**1 477.3**	**1 531.7**	**1 587.2**	**1 645.1**	**3.7%**
Percentage increase	*11.5%*	*3.7%*	*3.6%*	*3.6%*	
Debt-service costs	205.0	229.3	258.5	290.1	12.3%
Contingency reserve	–	5.0	5.0	5.0	
Main budget expenditure	**1 682.3**	**1 766.0**	**1 850.7**	**1 940.2**	**4.9%**
Percentage increase	*11.7%*	*5.0%*	*4.8%*	*4.8%*	
Percentage shares					
National departments	*50.1%*	*49.2%*	*48.0%*	*47.5%*	
Provinces	*41.5%*	*42.2%*	*43.2%*	*43.5%*	
Local government	*8.5%*	*8.6%*	*8.9%*	*9.0%*	

1. Includes proposed compensation reductions, support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

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Sustaining spending funded through equitable share funds

2020 BUDGET

Summary of reductions

Provincial equitable share:

- Reduction of 2% of non-wage spending (R7.3 bn over MTEF)
- Technical adjustment due to lower projected CPI inflation (R5.2 bn)
- Further planned reductions will be offset by lower wage costs

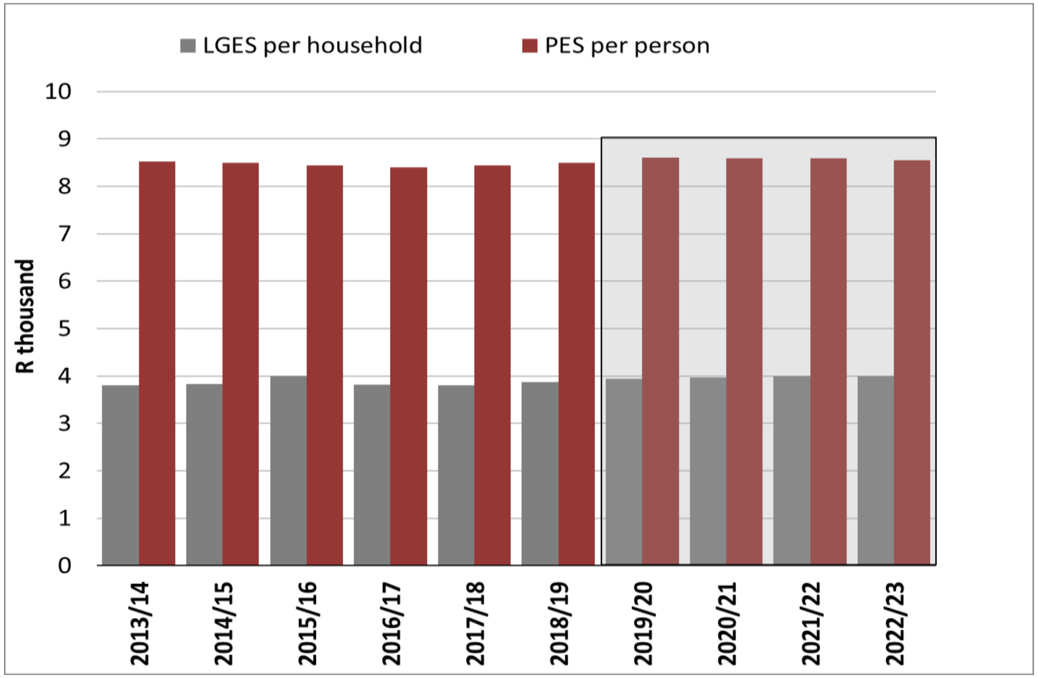
Local government equitable share:

- Reductions eliminated R3.2 bn in unallocated funds set aside to provide for higher bulk cost increases

Impact

- After accounting for the impacts of inflation AND population growth, equitable share allocations sustain the same level since 2013

Transfers to fund operational costs of social services in provinces and free basic services in municipalities have been protected in real, per capita terms



Does not include provisional reductions to compensation of employment

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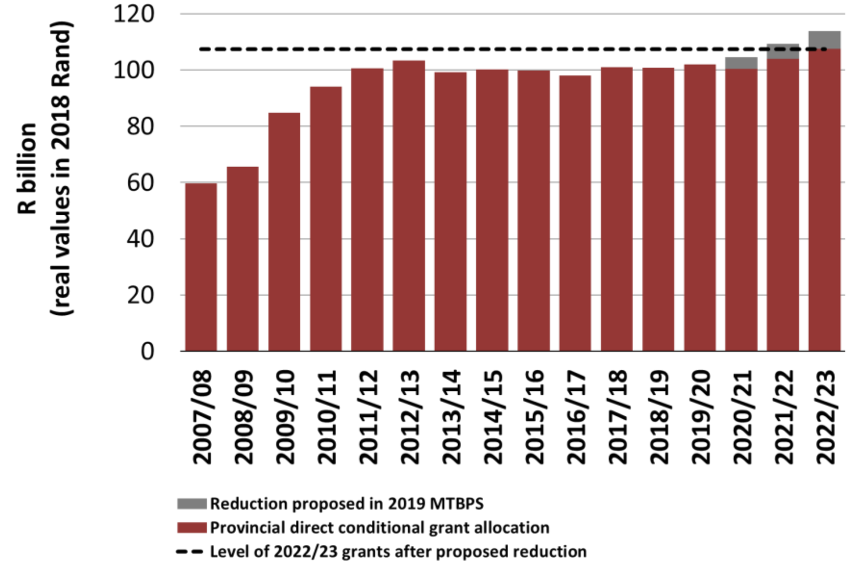
Managing the impact of conditional grant reductions

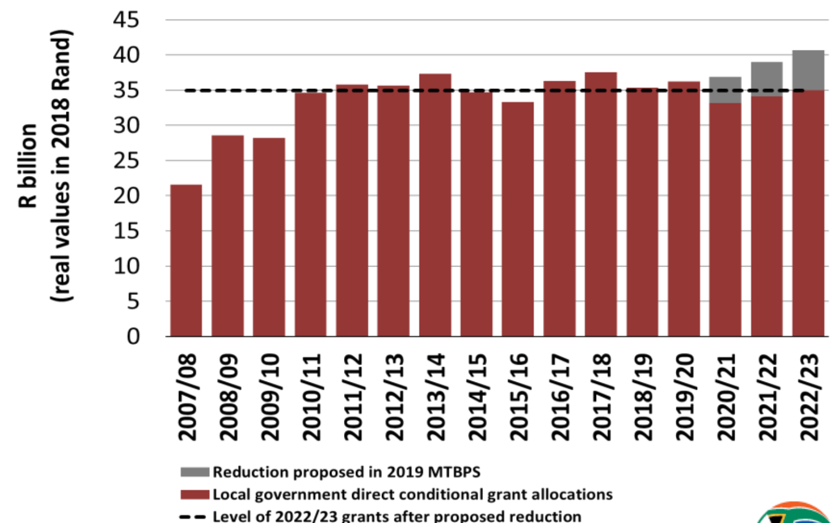
Responds to previous recommendations to describe methodology for determining reductions to grants

- Conditional grant funds are still in line with allocations over the last decade after taking account of inflation (but unlike equitable shares, grants have not kept pace with population growth)
- To manage the impact on services, the amount reduced from each grant considers:
  - Past spending and performance.
  - Whether it funds salaries, medicines and food.
  - Whether there has been significant real growth in allocations in recent years.
- Larger reductions are also made to grants to urban municipalities, which have more capacity to offset the effect of cuts by increasing their own revenue investments.

Provincial conditional grants (real values)



Local government conditional grants (real values)



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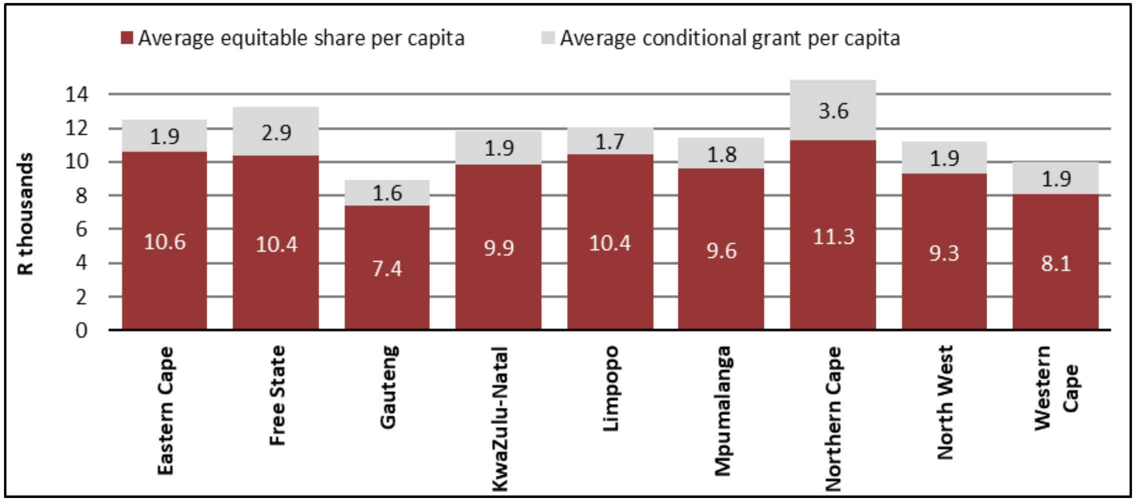
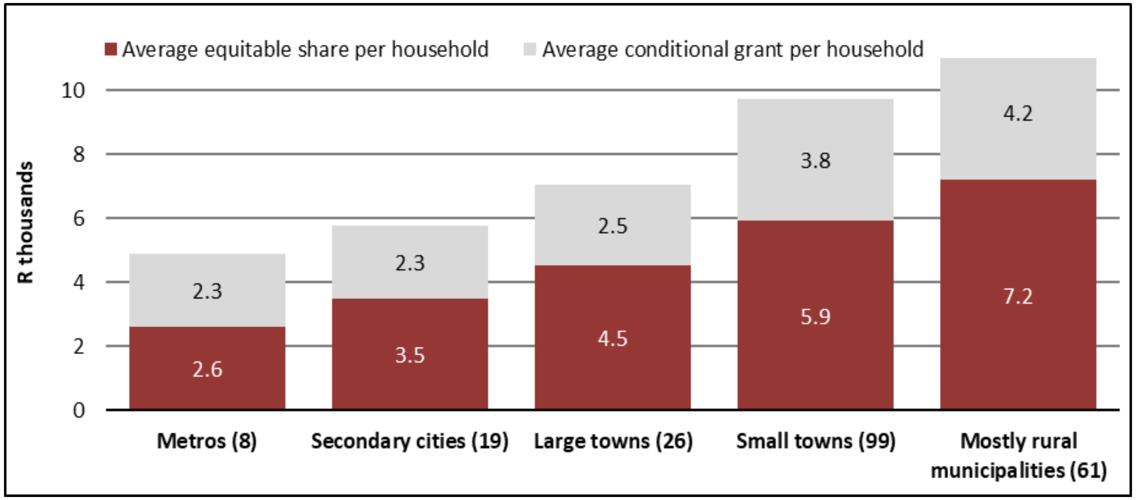
Redistribution through the Division of Revenue

- The DoR Bill allocates funds raised mainly from an urban tax base to be spent on services across the country
- As a result, it's impact is highly redistributive
  - For example, per capita revenues from personal income tax are three times higher in Gauteng than in the Eastern Cape. However, transfers per capita to the Eastern Cape are about 40% higher than to Gauteng

Per person transfers to provinces, 2020/21



Per household transfers to local government, 2020/21



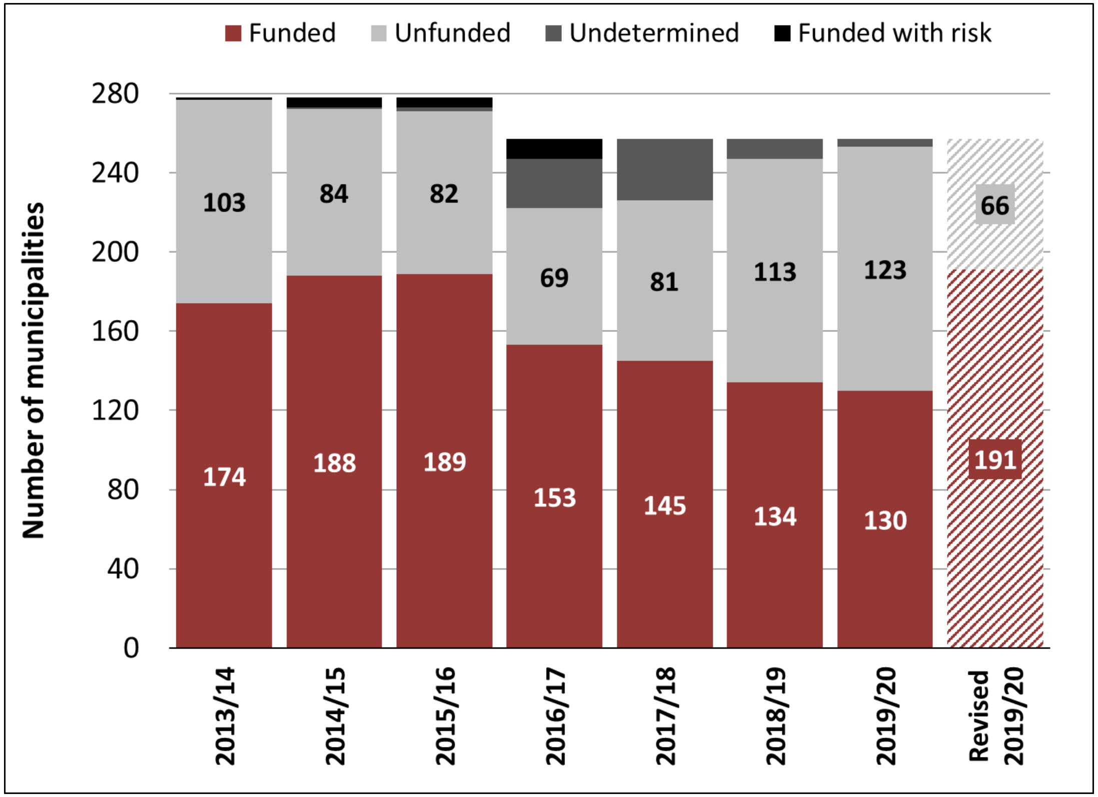
Allocations to district municipalities have been reassigned to local municipalities where possible

Addressing municipal financial problems

Responds to SCOA recommendation for consequence framework and SeCOA recommendation to address unfunded budgets

- Having equitable allocations in the DoR Bill does not guarantee they will be used effectively to deliver services
- Government is prepared to impose consequences for violations of budget rules, including withholding funds
- National Treasury and provincial treasuries worked to get municipalities to revise their 2019/20 budgets. Now ¾ have funded budgets
- The remaining 66 municipalities were asked to revise their budgets to ensure adequate cash flows to cover this financial year's commitments.
- This lays a firmer foundation for further work to improve municipal spending and performance

Funded and unfunded municipal budgets



Developing a pipeline of investment-ready projects in metros

Responds to SeCOA recommendation for dedicated grant funding

- Weak project planning is one of the biggest constraints to municipal infrastructure investment. Well designed projects have the potential to attract more private investment and borrowing.
- Following consultations with cities, in 2020/21, cities will be able to use at least half of their Integrated City Development Grant allocations for programme and project preparation activities. The remaining allocations can be used to tie-up any planned investments funded from the grant. From 2021/22, the full grant will be used for preparation activities
- To be eligible metros will need to submit a letter to National Treasury indicating their commitment to establishing and institutionalising an effective system of programme and project preparation
- Further, metros must not have had an adverse or disclaimed audit opinion in the last 2 financial years and must have formally adopted council resolutions on:
  - adopting the Cities Infrastructure Delivery and Management Systems guidelines
  - establishing a programme and project approval committee which will function as the authorising environment
  - committing to co-financing contributions and budget management arrangements

Changes to Bill clauses (1 of 2)

- Most of the Bill clauses remain the same from one year to the next
- Changes in the 2020 Bill include:

BEPP Exemptions

- Allowing metropolitan municipalities to be exempted from Built Environment Performance Plan requirements once planning reforms are institutionalised (changes in sections 9, 10 and 14)

Provision for possible municipal boundary changes

- Provisions to regulate spending in areas affected by municipal boundary changes are included in Section 38 (these are the same provisions used in 2016)

Improving grant administration - responsibilities for national departments

- Formally provide for the creation of components within a conditional grant and allow for funds to be shifted from one component to another, after consulting the receiving officer and getting approval by National Treasury (Clause 17(2))
- Require national departments to set a timeline for when the province/municipality must respond if they disagree with the proposed withholding of funds (Clause 18(4)(iii))

Changes to Bill clauses (2 of 2)

Responds to SeCOA recommendation to support District Development Model

Improving grant administration - responsibilities for provinces and municipalities

- Provinces and municipalities must report on what remedial actions they have taken to address the matters that resulted in withholding or stopping of transfers (Section 12)
- Requirement for provinces to consult municipalities before gazetting HSDG transfers to them and to set a payment schedule (Clause 12(6)(a))
- Require the financial statements of provincial departments to include information on the amounts from conditional grant funds that they transferred to municipalities or public entities (Clause 15(3)(b))
- Allow for amendments to be made to the payment schedule between provincial departments and any municipalities, schools, hospitals or public entities, if agreed between the provincial department and the recipient (Clause 30(5))

Updates to the provincial equitable share formula

- The provincial equitable share formula is updated to reflect changes in demand for services
- Additions to the formula include reprioritised funds over the MTEF for:
  - Sanitary dignity (R652 million)
  - Gender-based violence support (R316 million)
  - Social worker support shift (R398 million)
- The review of the formula in 2020 will include work on the education, health and poverty components and on the cost of rural services

Provincial equitable share

	2019/20	2020/21	2021/22	2022/23	Average annual
R million		Medium-term estimates			MTEF growth
Eastern Cape	68 824	71 415	75 306	78 841	4.6%
Free State	28 187	30 017	31 897	33 657	6.1%
Gauteng	102 448	112 118	121 121	129 908	8.2%
KwaZulu-Natal	106 014	111 442	117 755	123 544	5.2%
Limpopo	58 965	62 329	66 256	69 935	5.9%
Mpumalanga	41 428	44 105	46 996	49 724	6.3%
Northern Cape	13 424	14 290	15 207	16 068	6.2%
North West	34 973	37 548	40 174	42 682	6.9%
Western Cape	51 291	55 208	59 276	63 194	7.2%
Total	**505 554**	**538 472**	**573 990**	**607 554**	**6.3%**

Source: National Treasury

Component	Data used
Education	Mid-Year Population Estimates 2019 age cohorts (new data)
	2019 School enrolment (new data)
Health	2019 Mid-Year Population Estimates (new data)
	Insured population (2018 GHS) (new data)
	Risk adjusted index
	Patient load data (DHIS 2017/18 – 2018/19) (new data)
Basic	2019 Mid-Year Population Estimates (new data)
Poverty	2019 Mid-Year Population Estimates (new data)
	Income and Expenditure Survey (IES) 2010/11
Economic	GDP-R 2017 (new data)
Institutional	Not applicable (data not used)

Changes to provincial conditional grants

Responds to SeCOA recommendation for implementation of changes to health grants

Early childhood development

- R1.4 billion added to the Early Childhood Development Grant to improve the per child per day subsidy (from R15 in 2019/20 to R18.57 by 2022/23) and a small expansion of services

Heath grants:

- The Department of Health and National Treasury will review the health conditional grant system to ensure alignment to NHI and improve delivery
- Two related grants that fund medical internships, community service and training of specialists have been merged to form the Statutory Human Resources, Training and Development Grant
- To promote improvement in health services in rural provinces, development components are added to 2 conditional grants (National Tertiary Services Grant and the Statutory Human Resources, Training and Development Grant)
- New quality improvement activity included in NHI Indirect Grant

Comprehensive Agricultural Support Programme

- Funds reprioritised out of this grant to support improved animal testing and disease control

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Provincial grants

- The total value of provincial conditional grants increases from R107 billion in 2019/20 to R123 billion in 2022/23
- Allocations per province are shown in the schedules of the Division of Revenue Bill

R million	2019/20 Adjusted budget	2020/21	2021/22	2022/23	MTEF total
Agriculture, land reform and rural development	**2 159**	**2 153**	**2 320**	**2 392**	**6 865**
Comprehensive agricultural support programme	1 538	1 522	1 620	1 672	4 814
Ilima/Letsema projects	538	549	614	632	1 795
Land care programme: poverty relief and infrastructure development	82	82	86	88	257
Basic Education	**18 569**	**19 564**	**20 773**	**21 738**	**62 076**
Education infrastructure	10 514	11 008	11 710	12 255	34 973
HIV and AIDS (life skills education)	257	247	259	262	767
Learners with profound intellectual disabilities	221	243	256	266	765
Maths, science and technology	391	401	423	438	1 262
National school nutrition programme	7 186	7 666	8 125	8 516	24 308
Cooperative Governance	**131**	**138**	**146**	**153**	**438**
Provincial disaster relief	131	138	146	153	438
Health	**45 524**	**49 267**	**53 917**	**56 537**	**159 721**
HIV, TB, malaria and community outreach	22 039	24 387	27 931	29 405	81 723
Health facility revitalisation	6 007	6 368	6 658	7 034	20 060
Human papillomavirus vaccine	157	–	–	–	–
National tertiary services	13 186	14 069	14 694	15 294	44 057
National health insurance grant: health professionals	289	289	300	311	900
Statutory human resource, training and development	3 846	4 155	4 333	4 494	12 982
Human Settlements	**19 604**	**17 493**	**17 614**	**18 317**	**53 425**
Human settlements development	18 780	16 621	13 414	13 871	43 905
Title deeds restoration	548	578	–	–	578
Provincial emergency housing	277	295	311	326	932
Informal settlements upgrading partnership	–	–	3 890	4 121	8 011
Public Works and Infrastructure	**868**	**834**	**871**	**903**	**2 609**
Expanded public works programme integrated grant for provinces	437	421	440	456	1 316
Social sector expanded public works programme incentive for provinces	431	414	432	447	1 292
Social Development	**518**	**915**	**1 057**	**1 192**	**3 164**
Early childhood development	518	915	1 057	1 192	3 164
Sports arts and culture	**2 121**	**2 076**	**2 205**	**2 307**	**6 588**
Community library services	1 501	1 479	1 584	1 667	4 730
Mass participation and sport development	620	597	621	640	1 858
Transport	**17 768**	**18 343**	**19 058**	**19 597**	**56 998**
Provincial roads maintenance	11 442	11 593	11 938	12 507	36 037
Public transport operations	6 326	6 750	7 121	7 090	20 961
Total direct conditional allocations	**107 263**	**110 785**	**117 962**	**123 137**	**351 883**
Indirect transfers	**3 941**	**4 060**	**4 824**	**5 076**	**13 961**
Agriculture, land reform and rural development	**45**	**36**	**–**	**–**	**36**
Ilima/Letsema indirect	45	36	–	–	36
Basic Education	**1 987**	**1 736**	**2 295**	**2 424**	**6 456**
School infrastructure backlogs	1 987	1 736	2 295	2 424	6 456
Health	**1 909**	**2 288**	**2 529**	**2 652**	**7 469**
National health insurance indirect	1 909	2 288	2 529	2 652	7 469

Source: National Treasury

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Department: National Treasury
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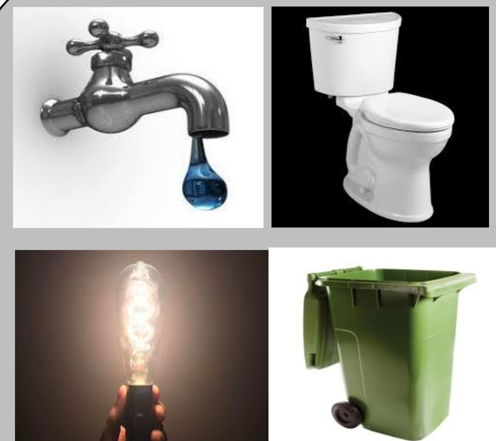
Updates to the local government equitable share formula

- Household data is updated (funds 10.4 million poor households in 2020/21, increasing to 10.8 million in 2022/23)
- Cost of services is updated for each year
  - Uncertainty on electricity price increases over the MTEF poses a risk (court ruling reopens NERSA process)

How the LG equitable share formula works



Free basic services
R54.1 billion
R435.04 per month for a package of free basic services for the 58% of SA households with an income of less than 2 old age pensions per month

+

Institutional
R5.6 billion to assist with administration costs

Community Services
R8.4 billion to fund community services

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

Government also allocates nearly R1 billion per year to subsidise the cost of councillor remuneration

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Changes to local government conditional grants

Responds to SCOA recommendation for institutions to face consequences

Informal settlements upgrading components

- These components will remain in place for 2020/21 in the Urban Settlements Development Grant and the Human Settlements Development Grant before becoming separate grants in 2021/22
- Cities and provinces are required to identify which well located settlements should be prioritised for upgrading to serviced sites

Municipal Infrastructure Grant (MIG)

- Specialised waste vehicles may be purchased through this grant (on a transversal contract, and only if expanding services)

Additional city joins the Integrated Urban Development Grant

- Steve Tshwete Local Municipality applied to move from the MIG and met the requirements. This grant includes an incentive for good maintenance and non-grant capital investment

Public Transport Network Grant

- Buffalo City, Msunduzi and Mbombela have been suspended from the grant due to a lack of progress in rolling out services

Additional funds for Vaal River system rehabilitation

- R750 million has been reprioritised towards Regional Bulk Infrastructure Grant projects to rehabilitate bulk sanitation infrastructure

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Local Government Grants

- Local government conditional grants increase from R52.1 billion in 2019/20 to R56.3 billion in 2022/23
- Allocations per municipality are contained in the annexures to the Division of Revenue Bill
- A summary of allocations per municipality is published on the National Treasury website

R million	2019/20 Adjusted budget	2020/21	2021/22	2022/23
		Medium-term estimates		
Direct transfers	**45 068**	**43 819**	**46 198**	**48 147**
Municipal infrastructure	14 816	14 671	15 937	16 852
Integrated urban development	857	948	1 015	1 075
Urban settlements development	12 045	11 282	7 405	7 352
Informal settlements upgrading partnership	–	–	3 945	4 181
Integrated city development	310	317	341	361
Public transport network	6 468	6 446	6 797	7 119
Neighbourhood development partnership	602	559	567	593
Integrated national electrification programme	1 863	1 859	2 003	2 119
Rural roads asset management systems	114	108	114	121
Regional bulk infrastructure	2 066	2 006	2 156	2 281
Water services infrastructure	3 669	3 445	3 620	3 701
Municipal disaster recovery	133	–	–	–
Energy efficiency and demand-side management	227	218	230	243
Municipal disaster relief	335	354	373	391
Municipal emergency housing	149	159	168	175
Infrastructure skills development	149	153	162	168
Local government financial management	533	545	575	596
Expanded public works programme integrated grant for municipalities	730	748	790	819
Indirect transfers	**7 024**	**7 628**	**7 229**	**8 161**
Integrated national electrification programme	3 124	3 001	2 994	3 688
Neighbourhood development partnership	50	63	95	106
Water services infrastructure	644	579	730	771
Regional bulk infrastructure	3 094	3 857	3 275	3 455
Municipal systems improvement	111	128	135	140
Total	**52 093**	**51 447**	**53 426**	**56 308**

Source: National Treasury

How recommendations are reflected in the Bill

- The Minister of Finance's responses to Committee Recommendations are presented in Annexure A to the Budget Review ("Report of the Minister of Finance to Parliament)
  - A summary of the responses to recommendations by the Select Committee on Appropriations is provided in this presentation
  - A summary of the responses to recommendations by the Standing Committee on Appropriations is provided in the annexure to this presentation
- Government's response to the Financial and Fiscal Commission (FFC) is published in Annexure W1 to the Budget Review
  - These written responses are consulted on extensively within government, including requesting inputs from all departments, provinces and SALGA, draft responses are discussed at the Budget Council and the final responses are approved by Cabinet
  - A summary of the responses is contained in the annexure to this presentation

Recommendations of SeCOA on the Division of Revenue Amendment Bill (1/3)

Committee Recommendation	Minister's Response
• *To prevent wasteful expenditure, the Minister of Finance, together with the Ministers of Agriculture, Health and Basic Education and the affected provincial treasuries, should ensure that concrete steps are taken to build and demonstrate capacity to spend.*	• The National Treasury agrees with this recommendation and will monitor the spending of all transferred funds and provide the progress report as requested.
• *The Minister of Finance should ensure that the National Treasury timeously approves the roll-overs contained in the bill for projects near completion for the receiving municipalities and provinces , and provides a progress report to the committee in the first quarter of 2020/21*	• The roll-overs have been approved and the funds are available to be spent. The National Treasury will provide the progress report as requested

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Recommendations of SeCOA on the Division of Revenue Amendment Bill (2/3)

Committee Recommendation	Minister's Response
• *The committee notes the technical issues behind infrastructure grants, and recommends that all procedural and technical issues be swiftly and effectively dealt with to ensure that the financial support for the removal of school sanitation backlogs is given.*	• The National Treasury agrees that all procedural and technical issues need to be dealt with swiftly and effectively and has engaged the Department of Basic Education on these issues. The National Treasury can also confirm that provinces that had their allocations reduced in the 2019 adjustment budget due to technical challenges have received their full allocation in the 2020 Budget.
• *The committee appeals to the National Treasury, COGTA and SALGA to continue to support municipalities until the Eskom and water boards' debt issues are resolved; ensure that the issues around provincial and national departments owing municipalities are also expeditiously addressed to bolster municipal finances. Further ensure that municipalities create credible credit control measures, debt management policies and effective revenue collection strategies; and provide a progress report in this regard to the committee in the first quarter of 2020/21*	• The National Treasury agrees with this recommendation and continues to work with the Department of Cooperative Governance and SALGA to support municipalities. The revised municipal budgets, described in Chapter 6 of the Budget Review, take account of the need to make payments to Eskom and water boards. The smart meter pilot could make revenue collection and payments more sustainable.

Recommendations of SCOA on the Division of Revenue Amendment Bill (3/3)

Committee Recommendation	Minister's Response
• *The committee requests that the National Treasury consider allocating a budget for the development of the Moloto Rail Corridor. The committee argues that high costs of a project cannot be elevated above the lives of voters.* • *The Minister of Finance and the Minister of Transport should report progress to Parliament, within three months after the adoption of this report, on what has been done since the pronouncement by President Jacob Zuma – in September 2017 – that the Moloto Rail Development Corridor was a government priority and one of the infrastructure development initiatives.*	• The Minister of Finance agrees that improving safety on this route is a priority • Work is already under way to improve road capacity and safety through infrastructure upgrades. SANRAL is allocated R4.2 billion to upgrade these roads between 2019/20 and 2022/23. • This will be complemented by improving the safety of government-subsidised buses operating along the Moloto Corridor and running road safety campaigns. • Human settlement and economic development options for this region also need to be considered. Economic development in the Moloto region could alter commuting patterns, as would the decision by some households to take advantage of new housing opportunities closer to their places of work

Recommendations of SeCOA on the proposed Division of Revenue and conditional grant allocations (1/5)

Committee Recommendation	Minister's Response
• *The committee recommends that the National Treasury, together with Cogta, alongside provincial treasuries and provincial cooperative governance departments, ensure that provinces and municipalities use all the available resources in line with the public financial management prescripts in a manner that reduces waste, eradicates opportunities for corruption, and promotes quality service delivery as envisaged in the NDP.*	• The Minister of Finance agrees with this recommendation and appreciates the call to action for all parts of government to redouble their efforts to ensure sound management of public funds
• *The National Treasury should review the vertical division of nationally raised revenue, in order to ascertain whether the 9 per cent allocation to local government is sufficient for the sector to perform its mandate*	• The Minister of Finance has proposed holding a special local government Budget Forum lekgotla to discuss the structure of the local government fiscal framework, including the size and structure of transfers.

Recommendations of SeCOA on the proposed Division of Revenue and conditional grant allocations (2/5)

Committees Recommendation	Minister's Response
• *The committee is of the view that grant restructuring, termination or merging must not affect service delivery objectives and proper assessment or analysis of grant performance ought to be conducted before any restructuring can happen. These changes affect the merging of two health grants and the introduction of two new components in 2021/22 in the HIV, TB, malaria and community outreach grant*	• The National Treasury agrees that grant restructuring should not harm but improve service delivery. Only relatively small changes are being made to the structure of conditional grants in 2020/21. The Department of Health and the National Treasury will work together to develop a broader strategy that will inform future changes to health grants and ensure their alignment to national health insurance reforms
• *The National Treasury should engage more extensively with the FFC and respond more comprehensively to its recommendations, as a constitutional body.*	• Section 214 of the Constitution requires that the FFC's recommendations be considered before tabling the division of revenue. Government's responses to the FFC's recommendations related to the division of revenue are provided in part 3 of Annexure W1 of the Budget Review

Recommendations of SeCOA on the proposed Division of Revenue and conditional grant allocations (3/5)

Committee Recommendation	Minister's Response
• *Regarding municipalities adopting unfunded budgets, the committee recommends that the National Treasury, together with the relevant stakeholders, expedite the implementation of the revised strategy to address municipal financial performance failures, which has been endorsed by the Budget Council and Budget Forum. A progress report hereon should be submitted to the committee in the first quarter of the 2020/21 financial year.*	• The National Treasury agrees with this recommendation and is already implementing the strategy.
• *In order to have more effective consultation on budgetary matters, the National Treasury and SALGA should engage more extensively during the budget planning cycle and not only at the Budget Forum meetings*	• SALGA officials are invited to participate in a range of meetings and processes with the National Treasury and others, such as the local government equitable share working group and conditional grant framework meetings. The National Treasury has proposed collaborating with SALGA and the Department of Cooperative Governance to produce papers and presentations for the local government Budget Forum lekgotla in 2020.

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Recommendations of SeCOA on the proposed Division of Revenue and conditional grant allocations (4/5)

Committee Recommendations	Minister's Response
• *The committee recommends that the National Treasury, together with the relevant stakeholders, expedite the pilot project of the district models, which will be implemented in Oliver Reginald Tambo District Municipality and eThekwini Metropolitan Municipality. On completion the committee expects a report identifying lessons learnt during the pilot phase, how resources allocated have been utilised and clear recommendations to improve the programme before it is implemented*	• The National Treasury agrees with this recommendation. COGTA is coordinating the implementation of the pilots of the district development model. The National Treasury will support the department in identifying lessons learnt for the report requested.

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Recommendations of SeCOA on the proposed Division of Revenue and conditional grant allocations (5/5)

Committees Recommendation	Minister's Response

• *Given the levels of under-investment in infrastructure projects by larger urban municipalities, the committee recommends that the National Treasury and the Department of Cooperative Governance fast-track the following initiatives:*
  • *Table the Municipal Fiscal Powers and Functions Amendment Bill,*
  • *Introduce the dedicated grant funding for large urban municipalities,*
  • *Ensure that capacity-building and improvement of municipal systems allocations are effectively and efficiently utilised for their intended purposes*
	• The National Treasury agrees with the recommendations and can report that it has made considerable progress in each of the abovementioned initiatives.
	  • The draft Municipal Fiscal Powers and Functions Amendment Bill was published for public comment in January 2020.
	  • The grant funding for project preparation recommended by the committee is being provided through the integrated city development grant.
	  • Grants like the financial management grant and the municipal systems improvement grant must be used for their intended purpose, as required by the Division of Revenue Act. The effectiveness of the capacity-building system for local government is also being reviewed by the National Treasury.

How we are using the Division of Revenue Bill to respond to the COVID-19 disaster

- The 2019 Division of Revenue Act has several disaster provisions that have already been activated:
  - **Disaster Relief Grants:** R466 million transferred to provincial health departments for the purchase of personal protective equipment.
  - **Reallocations in terms of section 20(6)**, which allows exiting grants to be reallocated for disaster alleviation:
    - R306 million in the indirect Regional Bulk Infrastructure Grant was reallocated for interim water supply measures (e.g. tanks and tankering)
    - 2019/20 Urban Settlements Development Grant funds not already contractually committed to projects have been reallocated to allow cities to fund increased services in informal settlements and vulnerable communities
  - **Adjustments to conditional grant business plans:** an estimated R1.4 billion in 2019/20 Municipal Infrastructure Grant funds are being redirected to urgent water supply projects
- Enacting the 2020 Division of Revenue Act will enable the use of similar provisions in 2020/21 to provide further assistance
- National Treasury is also proposing to make small changes to a few conditional grant frameworks before they are gazetted in order to better respond to the scale of this unprecedented situation

What happens once the Division of Revenue Bill is enacted

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

This becomes the **Division of Revenue Act** (once enacted)

- Annexure W1: Explanatory memorandum

Falls away (remains on NT website)

- W2: Provincial conditional grant frameworks
- W3: Local Government conditional grant frameworks
- Annexures W4-W7: allocations per municipality
- Appendixes: Further details of grants (including breakdown of components within grants)

These are drafts in the Bill, but are given legal force when **gazetted** by the Minister of Finance in terms of s16(1)

How government proposes to use the 2020 Division of Revenue Bill to further assist the COVID-19 response

- National Treasury is currently engaging with sector departments, provinces and SALGA on how conditional grants can best be used to assist the response to the COVID-19 pandemic
  - This is in addition to the funds provinces and municipalities are reprioritising in their own budgets
- Many grants already fund activities that assist, and in these cases those activities will be prioritised within the grant
- A few grants will need small changes to grant frameworks to accommodate spending on additional activities (for example the purchasing of personal protective equipment)
  - There are sometimes small changes to conditional grant frameworks between what is tabled as annexures to the Bill and what is gazetted. These are usually corrections to small errors, but we are proposing to use this same approach to make the necessary changes to assist in the COVID-19 response
  - The details of these changes are still being finalised with departments
  - Parliament will be informed of all of the proposed changes before the Select Committee on Appropriations finalises its report on the Division of Revenue Bill

Annexures

You can also access more budget information from our user-friendly platforms:

vulekamali
SA Online Budget Data

www.municipalmoney.gov.za
open **local government budget** data portal
Explore easy-to-understand, verified financial information for **every single municipality in South Africa** in one place.

Recommendations of SCOA on the Division of Revenue Amendment Bill

Committee Recommendation	Minister's Response
• *The Minister of Finance must ensure that the 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 (2019) as soon as possible.* *SeCOA made the same recommendation.*	• The corrected frameworks have been gazetted together with the details of the revised allocations, which were provided through the Division of Revenue Amendment Act.
• *The Minister of Finance should ensure there is a consequence management framework and that actions are taken against government institutions that continuously underspend their appropriated budgets*	• The National Treasury agrees that there should be consequences • Provinces and municipalities face consequences, including the withholding, stopping and reallocation of funds

FFC Recommendations

- The FFC annually makes recommendations on the division of revenue (DoR) and Government responds to these recommendations in Annexure W1 of the Budget Review
- Since 2013 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)
- Recommendations that do not relate to the division of revenue have been referred to the officials to whom they were addressed – the Minister of Cooperative Governance and Traditional Affairs and the President of SALGA – and they will respond directly to the FFC

Summary of recommendations and responses (1 of 9)

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

FFC Recommendation	Government Response
Chapter 2: Reviewing the Local Government Fiscal Framework	
• Add supplementary revenue sources to the list of allowable taxes in a differentiated manner. Change the division of revenue to compensate for the increase in urban own resource potential by increasing transfers to rural areas	• Government supports this recommendation. The Municipal Fiscal Powers and Functions Act (MFPFA), already allows municipalities to apply to levy additional taxes.Government has prioritised various reforms intended to supplement municipal revenue sources. These include legislative amendments to the MFPFA, the draft bill published in January 2020, provides for a uniform regulation of development charges; and updating the municipal borrowing policy framework to clarify funding instruments municipalities are allowed to use to leverage borrowing. • Government agrees on rebalance between urban and rural transfers. • Larger reductions were made to urban grants in the 2020 MTEF as government recognised that urban municipalities have higher own revenue raising abilities and could absorb the impact by increasing their own revenue funding of infrastructure investments

Summary of recommendations and responses (2 of 9)

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

FFC Recommendation	Government Response
Chapter 2: Reviewing the Local Government Fiscal Framework	
• Proactively inform municipalities on various land value capture mechanisms in order to supplement their current own revenue sources	National Treasury has called on municipalities in several Budget Reviews and Medium Term Budget Policy Statements, to use all available options to supplement own revenues. The City of Johannesburg and the City of Cape Town are already implementing land value capture mechanisms. Government continues to conduct research on land value capture mechanisms to better advise more municipalities on their implementation

Summary of recommendations and responses (3 of 9)

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

FFC Recommendation	Government Response
Chapter 3: Municipal Government Capacity Building	
• Interdepartmental collaboration to develop a government-wide accepted definition of 'municipal functionality'	Government supports the proposal for a collaborative process to better understand and define 'municipal functionality'. The Minister of Finance has proposed a special Local Government Budget Forum lekgotla be held in May or June 2020. The proposed agenda for this lekgotla includes a discussion on municipal functionality. Officials from relevant departments will all work together to prepare inputs for the lekgotla

Summary of recommendations and responses (4 of 9)

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

FFC Recommendation	Government Response
Chapter 3: Municipal Government Capacity Building	
• Prioritise technical support to municipalities for new systems, innovative business process redesigns and change management	Government agrees with the recommendation. Government already invests more than R2.5 bn per year in local government capacity building and support. When municipal Standard Chart of Accounts (mSCOA) was introduced government provided extensive mSCOA training and training materials.

Summary of recommendations and responses (5 of 9)

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

FFC Recommendation	Government Response
Chapter 3: Municipal Government Capacity Building	
• Conduct regular assessments of the minimum competency regulations to determine their impact and whether there are tangible improvements as a result of complying	Government agrees, however, reviews should take place after sufficient time has passed to allow for measurable impact. The Minister of Finance, with the concurrence of the Minister of Cooperative Governance and Traditional Affairs, amended Municipal Regulations on Minimum Competency Levels in October 2018. A review of the impact of the minimum competency regulations will be undertaken in due course

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Summary of recommendations and responses (6 of 9)

FFC Recommendation	Government Response
Chapter 4: Local Government Infrastructure Management and Efficiency	
Foster intergovernmental infrastructure coordination and strengthen the linkages between technical project planning processes and budgeting through: • Time-bound plans for consolidating all municipal infrastructure grants into the respective existing sector-specific grants, providing the key sector department with the authority to carry out their infrastructure support mandate	Consolidation and rationalisation of municipal grants have been identified as key areas of reform in the local government grants review and several grants have already been consolidated in the transport, water and sanitation and energy sectors The process requires extensive consultation, as such government cannot commit to definitive timelines. Government is, however, committed to achieving the vision of a differentiated grant system which recognises the varying contexts faced by municipalities while reducing the number of separate grants each municipality receives

Summary of recommendations and responses (7 of 9)

FFC Recommendation	Government Response
Chapter 4: Local Government Infrastructure Management and Efficiency	
• Clarifying roles and responsibilities especially in the delivery of water and electricity services between local municipalities, district municipalities and public entities including the water authorities and Eskom	The Clause 29(2) and (3) Division of Revenue Act makes provision for consultation between district and local municipalities on their respective roles and responsibilities in the provision of services. Clause 29(5) requires a payment schedule be agreed upon for any funds that must be transferred from the district municipality to the local municipality for functions they perform on behalf of the district municipality. An electrification master plan is under development, it will provide guidance on which new areas should be electrified by Eskom and which by municipalities.

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Summary of recommendations and responses (8 of 9)

FFC Recommendation	Government Response
• Minister of COGTA should establish an infrastructure inspectorate through the Municipal Infrastructure Support Agency (MISA). ➢ The MISA inspectorate should assess management performance processes and capacity in municipalities to implement grant and non grant funded infrastructure projects. ➢ The inspectorate should undertake infrastructure delivery management capability assessments, quality inspections, project management and delivery audits and advise on infrastructure delivery through the development of infrastructure blueprints for various types of municipal facilities. ➢ Inspectorate assessments should align to the Division of Revenue Bill conditions for allocation, reporting and the disbursement of grants, in line with the recently established Budget Facility for Infrastructure programme criteria.	• Government supports the need for improved oversight of the implementation of municipal infrastructure projects. However, an infrastructure inspectorate would require significant institutional capacity to implement successfully. Careful consideration is needed on the best mechanisms to improve oversight and whether this capacity should be located in MISA and or another institution. • A formal review of MISA's operational efficiency has been recommended by National Treasury, to assess MISA's current activities and to identify where there is scope to reprioritise resources within MISA to fund the work of the proposed inspectorate. • Recommendation will be considered further within government during 2020. MISA's ability to implement significant new programmes in the short-term will likely be affected by the developments in late 2019. In the meantime, government will continue to implement measures to review and strengthen municipal capacity building and to improve coordination and project management capacity.

Summary of recommendations and responses (9 of 9)

FFC Recommendation	Government Response
• Within a District Municipality area various project management resources should be pulled together to create a shared project management facility to improve the oversight capacity in respect of projects	• Government agrees on the importance of improving the coordination of infrastructure delivery. The District Development Model launched by President Ramaphosa aims to develop and implement 'One Plan' for each district/metro area that coordinates the efforts of different stakeholders within the space of the respective municipality. • To improve project implementation, government is also investing in project preparation through the Development Bank of Southern Africa and an announcement of dedicated grant funding for project preparation in metropolitan municipalities (this may be extended to other municipalities in future) which is subject to metropolitan municipalities meeting certain requirements with respect to their project and programme preparation

Summary of the provincial transfers and equitable share formula

Total transfers to provinces, 2020/21

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	71 415	12 488	83 903
Free State	30 017	8 239	38 256
Gauteng	112 118	23 935	136 053
KwaZulu-Natal	111 442	22 011	133 453
Limpopo	62 329	9 890	72 219
Mpumalanga	44 105	8 312	52 417
Northern Cape	14 290	4 542	18 832
North West	37 548	7 743	45 291
Western Cape	55 208	13 191	68 398
Unallocated	–	433	433
Total	**538 472**	**110 785**	**649 256**

Distributing the equitable shares by province, 2020 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
	48.0%	**27.0%**	**16.0%**	**3.0%**	**1.0%**	**5.0%**	**100.0%**
Eastern Cape	14.0%	12.3%	11.4%	14.9%	7.7%	11.1%	13.0%
Free State	5.3%	5.3%	4.9%	5.1%	5.0%	11.1%	5.5%
Gauteng	19.4%	24.0%	25.8%	18.7%	34.3%	11.1%	21.4%
KwaZulu-Natal	21.6%	20.5%	19.2%	21.8%	16.0%	11.1%	20.3%
Limpopo	12.7%	10.2%	10.2%	13.5%	7.3%	11.1%	11.5%
Mpumalanga	8.4%	7.5%	7.8%	9.3%	7.5%	11.1%	8.2%
Northern Cape	2.3%	2.1%	2.2%	2.2%	2.1%	11.1%	2.6%
North West	6.8%	6.7%	6.9%	8.2%	6.5%	11.1%	7.0%
Western Cape	9.5%	11.4%	11.6%	6.4%	13.6%	11.1%	10.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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Reductions to provincial conditional grants

R million	2020/21	2021/22	2022/23	MTEF total revision
Reductions to baselines	**-4 582**	**-5 572**	**-6 771**	**-16 926**
Comprehensive agricultural support programme	-154	-194	-233	-581
Ilima/Letsema projects	-31	-39	-48	-118
Land care programme: poverty relief and infrastructure development	-4	-5	-7	-17
Community library services	-105	-95	-83	-283
Education infrastructure	-459	-616	-775	-1 850
HIV and AIDS (life skills education)	-24	-27	-34	-85
Maths, science and technology	-12	-13	-14	-39
National school nutrition programme	-30	-40	-53	-123
HIV, TB, malaria and community outreach	-244	-278	-291	-812
Health facility revitalisation	-191	-206	-216	-612
Statutory human resource and training and development	-11	-67	-70	-147
National tertiary services	–	-148	-156	-304
Human settlements development	-2 331	-1 984	-2 402	-6 717
Informal settlements upgrading partnership	–	-432	-453	-885
Expanded public works programme integrated grants for provinces	-42	-49	-51	-142
Social sector expanded public works programme incentive for provinces	-41	-48	-50	-139
Mass participation and sport development	-57	-69	-75	-201
Provinicial roads maintenance	-500	-1 084	-1 258	-2 841
Public transport operations	–	–	-295	-295
Indirect transfers	**-346**	**-179**	**-208**	**-734**
School infrastructure backlogs	-33	-44	-46	-123
National health insurance indirect	-314	-135	-162	-611

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Summary of transfers to local government

Transfers to local government

R million	2016/17	2017/18 Outcome	2018/19	2019/20 Adjusted budget	2020/21	2021/22 Medium-term estimates	2022/23
Direct transfers	**102 867**	**111 103**	**118 488**	**127 209**	**132 529**	**142 442**	**151 445**
Equitable share and related	**50 709**	**55 614**	**60 758**	**68 973**	**74 683**	**81 062**	**87 213**
Equitable share formula[1]	45 259	49 928	55 072	62 648	68 063	74 090	79 913
RSC levy replacement	4 567	4 795	4 795	5 357	5 652	5 963	6 249
Support for councillor remuneration and w ard committees	883	891	891	969	969	1 009	1 051
General fuel levy sharing with metros	**11 224**	**11 785**	**12 469**	**13 167**	**14 027**	**15 182**	**16 085**
Conditional grants	**40 934**	**43 704**	**45 262**	**45 068**	**43 819**	**46 198**	**48 147**
Infrastructure	39 259	41 888	43 862	43 172	41 860	44 130	45 998
Capacity building and other	1 675	1 815	1 400	1 897	1 959	2 067	2 149
Indirect transfers	**8 112**	**7 803**	**7 770**	**7 024**	**7 628**	**7 229**	**8 161**
Infrastructure	8 093	7 699	7 699	6 913	7 500	7 093	8 020
Capacity building and other	19	103	71	111	128	135	140
Total	**110 979**	**118 905**	**126 258**	**134 233**	**140 157**	**149 671**	**159 605**

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Reductions to local government conditional grants

R million	2020/21	2021/22	2022/23	2020 MTEF Total revisions
Reductions to baselines	**-4 083**	**-6 723**	**-7 162**	**-17 968**
Direct transfers	**-4 022**	**-5 896**	**-6 882**	**-16 801**
Conditional grants	**-4 022**	**-5 896**	**-6 882**	**-16 801**
Municipal infrastructure	-783	-842	-882	-2 506
Water services infrastructure	-426	-541	-698	-1 665
Urban settlements development	-1 270	-1 968	-2 554	-5 793
Integrated national electrification programme	-119	-128	-134	-380
Integrated urban development	-47	-51	-53	-151
Public transport network	-1 049	-1 570	-1 727	-4 347
Neighbourhood development partnership	-65	-77	-81	-224
Integrated city development	-10	-11	-11	-31
Rural roads asset management systems	-12	-13	-13	-38
Informal settlements upgrading partnership	–	-438	-459	-898
Regional bulk infrastructure	-174	-187	-196	-558
Energy efficiency and demand-side management	-22	-23	-24	-68
Local government financial management	-17	-18	-19	-53
Expanded public works programme	-23	-24	-26	-73
Infrastructure skills development	-5	-5	-5	-15
Indirect transfers	**-61**	**-826**	**-279**	**-1 167**
Integrated national electrification programme	-61	-826	-279	-1 167

Who benefits from the funds in the Division of Revenue Bill
Selected examples

58.8 **million people in South Africa**
Increased by 1 million from 2018 to 2019
Number used to inform provincial equitable share formula

49.1 **million people depend on public healthcare**
Number used to inform provincial equitable share formula

13 **million learners in South African schools**
9 million receive free school meals daily
Number used to inform provincial equitable share formula

10.4 **million poor households funded for free basic services**
Increased by 250 000 from 2019
Number used to inform local government equitable share formula

250 000 **households provided with water or sanitation through the municipal infrastructure grant in 2018/19**