

Parliamentary

Brief on 2020 Division of Revenue  
Bill for Select Committee on  
Appropriation- 22 April 2020

Budget  
Office



# Outline

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Conditional Grants

# PBO Team- Today

- Dr Dumisani Jantjies
- Ms Nelia Orlandi
- Dr Seeraj Mahomed

# Introduction

- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009, provides independent analysis,
- Purpose of this brief is to provide analysis to assist members of the Select Committee on Appropriations in their consideration and adoption of the 2020 Division of Revenue Bill.
- It further aims to assist members in determining the consistency of the changes to the division of revenue with the fiscal framework, taking into account the service delivery obligations and priorities of all affected national departments, provincial government departments and local governments.

# Background (1/2)

- Covid-19 highlights public health dangers associated with current inadequate levels and quality of basic services.
- The 2020 DOR allocations have changed compared to the 2019 DORA, mainly due to unforeseen expenditure pressures from SOCs and slower than expected economic growth.
- There have been baseline reductions in budget allocations to all three spheres of government in the 2020 DOR bill.
- Provincial and local government equitable shares have increased by 6.5 per cent and 11.5 per cent respectively.
- Declines in baseline allocations were mainly as a result of reductions in provincial and local government conditional grants.
- The potential implications of these changes on service delivery are difficult to determine at this stage,
- Therefore, the Committee may consider requesting government to provide regular updates on the impact of reducing the conditional grants on service delivery,

# Background (2/2)

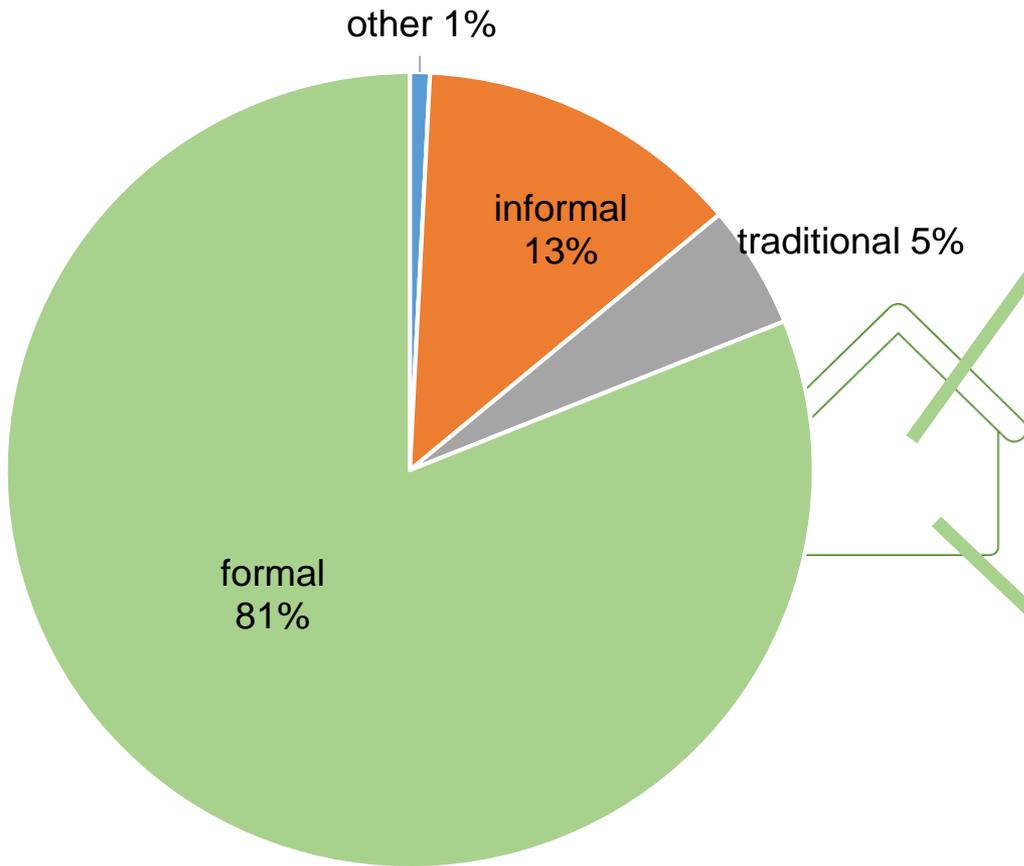
- The 2020/21 baseline reduction in local government conditional grants are mainly related to infrastructure and capacity building.
- AGSA has repeatedly identified poor infrastructure and lack of human capacity as challenges faced by many municipalities.
- The Committee may consider requesting government to report on the impact of the baseline reductions in the infrastructure and capacity building conditional grants on service delivery.
- These reports could also include information that enables the Committee to evaluate the impact of baseline changes on efficiency and effectiveness of local government service delivery.
- Preliminary findings of PBO's assessment of the grant schedules find that the performance information provided by the conditional grant frameworks are insufficient to determine efficiency and effectiveness of the grants.
- The Covid19 pandemic could lead to major reprioritisation of funds.

# Basic Service delivery backlogs

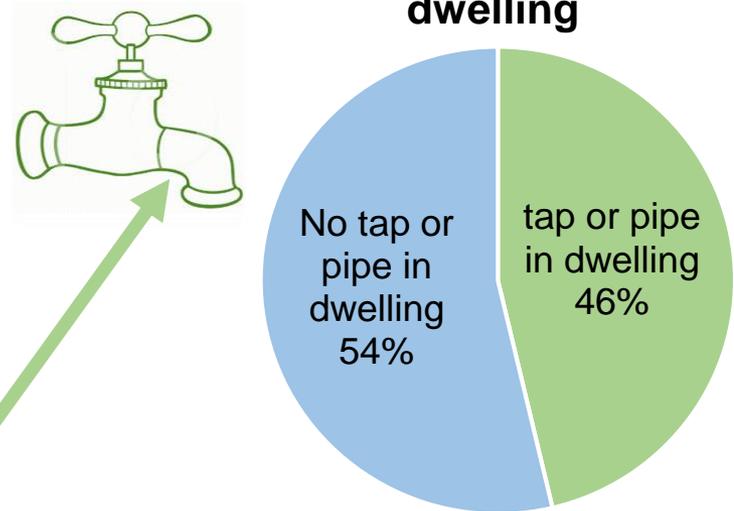
- Many South African households have gained improved access to basic services over the past decade.
- However, the government still has much more to do to improve the level and provision of basic services.
- Growth in the number of households, which grew faster than the population, means that there are more households to provide with basic services.
- The level and quality of access to these basic services should also improve.
- Therefore, unless there are unexpectedly large efficiency improvements in services provision, building of services infrastructure and capacity development, even increases in expenditure that takes into account inflation and population growth over the medium term will be inadequate.

# Examples of basic service delivery backlogs at a national level: Household type, access to water and toilets in 2018

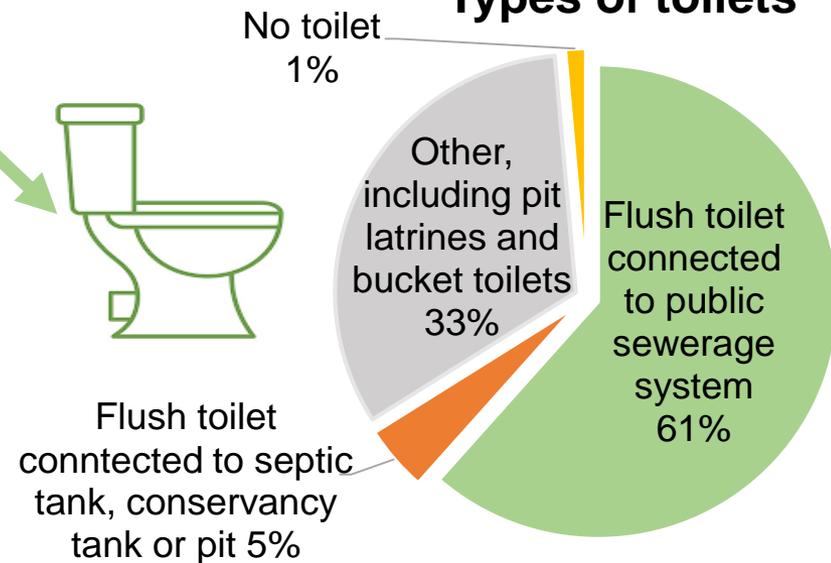
## Type of dwelling (2018) percentage of total households



## Households with tap or pipe in dwelling



## Types of toilets



# 2020 Division of Revenue

	2019/20 Revised estimate	2020/21 2019 BR	2020/21 2020 BR	Changes to the 2020/21 estimates	Growth from 2019 Revised estimate to 2020 BR
<b>R billion</b>					
<b>Division of available funds</b>					
<b>National departments</b>	739.5	733.1	757.7	24.6	2.5%
<i>of which:</i>				–	
<i>Indirect transfers to provinces</i>	3.9	5.0	4.1	-0.9	3.0%
<i>Indirect transfers to LG</i>	7.0	7.1	7.6	0.5	8.6%
<b>Provinces</b>	612.8	657.1	649.3	-7.9	5.9%
Equitable share	505.6	542.9	538.5	-4.4	6.5%
Conditional grants	107.3	114.2	110.8	-3.4	3.3%
<b>Local government</b>	125.0	137.9	132.5	-5.4	6.0%
Equitable share	67.0	75.7	74.7	-1.0	11.5%
Conditional grants	44.9	48.2	43.8	-4.4	-2.4%
<b>Non-interest allocations</b>	1 477.3	1 539.5	1 531.7	-7.8	3.7%
<b>Percentage shares</b>					
<i>National departments</i>	50.1%	48.0%	49.2%		
<i>Provinces</i>	41.5%	43.0%	42.2%		
<i>Local government</i>	8.5%	9.0%	8.6%		

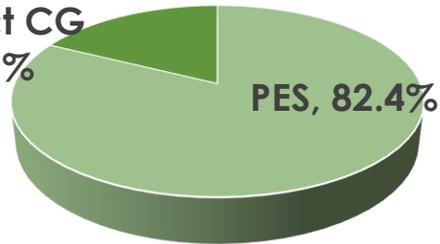
# 2020 Division of Revenue

## Provincial share

Direct and indirect CG

17.6%

PES, 82.4%



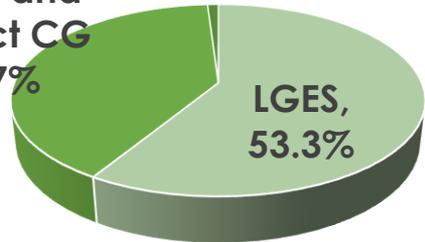
## Local Government

Direct and indirect CG

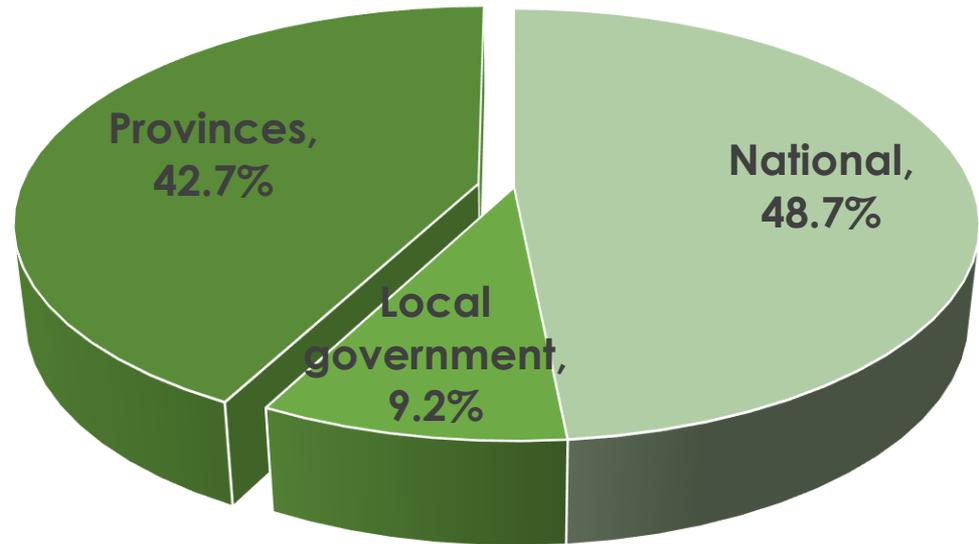
36.7%

LGES, 53.3%

Fuel Levy, 0.9%



## % shares of non-interest allocation



# Baseline reductions over the 2020 MTEF

R million	2020/21	% share of 2020/21 estimates	2021/22	2022/23	MTEF total
<b>2020 Budget baseline adjustments</b>	<b>-28 238</b>		<b>-33 219</b>	<b>-39 341</b>	<b>-100 798</b>
Programme specific reductions	-10 666	37.8%	-10 596	-15 742	-37 004
Provincial equitable share	-2 349	8.3%	-2 452	-2 524	-7 325
Provincial conditional grants	-4 893	17.3%	-5 940	-7 202	-18 036
<i>of which:</i>					
<i>Human settlements development grant</i>	-2 331	8.3%	-1 984	-2 402	-6 717
<i>Provincial roads maintenance grant</i>	-500	1.8%	-1 084	-1 258	-2 841
<i>Health conditional grants</i>	-446	1.6%	-698	-732	-1 875
<i>Education infrastructure grant</i>	-459	1.6%	-616	-775	-1 850
Local equitable share	-1 000	3.5%	-1 100	-1 100	-3 200
Local conditional grants	-4 622	16.4%	-6 457	-7 425	-18 504
<i>of which:</i>					
<i>Public transport network grant</i>	-1 049	3.7%	-1 570	-1 727	-4 347
<i>Urban settlements development grant</i>	-1 420	5.0%	-1 968	-2 554	-5 943
<i>Municipal infrastructure grant</i>	-989	3.5%	-894	-939	-2 822
<i>Water services infrastructure grant</i>	-426	1.5%	-541	-698	-1 665

# Effective and efficient spending of priority funding: Conditional Grants

Baseline reductions take into account, amongst others:

- Past spending and performance
- Where possible, the National Treasury has reduced transfers they consider more likely to go unspent or spent less effectively

The PBO's series of assessments of the grant schedules attached to the Division of Revenue Bill to assess whether spending of conditional grants is effective and efficient found that the performance indicators in the conditional grant frameworks:

- Provide information mainly on outputs achieved.
- Do not provide impact indicators, which makes it difficult for oversight bodies, in specific Parliament, to determine the effectiveness of funds spent.
- Creates a gap in reported information of two years that affects oversight. They provide only actual performance indicators for earlier years but do not provide estimated performance data for the most recent financial year.
- do not generally provide targets over the medium term

## **PARLIAMENTARY BUDGET OFFICE**

Tel: +27 021 403 2360 \* Fax: +27 021 403 3153

Fax-to-Mail: +27 086 718 2531

Email: [pboinfo@parliament.gov.za](mailto:pboinfo@parliament.gov.za)

## **LOCATION:**

103-107 Plein Street

Parliament Towers

4th Floor

Thank you

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