

# 2023 Division of Revenue Bill

Briefing for the Select Committee on  
Appropriations

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*Division: IGR*

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Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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## **Overview of the presentation**

- An overview of the 2023 Division of Revenue
- Provincial government allocations
- Local government allocations
- Changes to Bill clauses and schedules

## **Additional information**

- Responses to FFC Recommendations (Details in Annexure W1 to the 2023 Division of Revenue Bill)
- Responses to Committee Recommendations (Details in Annexure A to the 2023 Budget Review)

# 2023 Division of Revenue



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# 2023 Division of Revenue

- National share of revenue increases at an annual average rate of 0.9 per cent
- Transfers to provinces increase at an average annual rate of 2.8 per cent, with conditional grants growing faster than the equitable share
- Transfers to local government grow at an average annual rate of 7.4 per cent, mainly as a result of the higher than inflation growth in the equitable share

Table 6.1 Division of nationally raised revenue

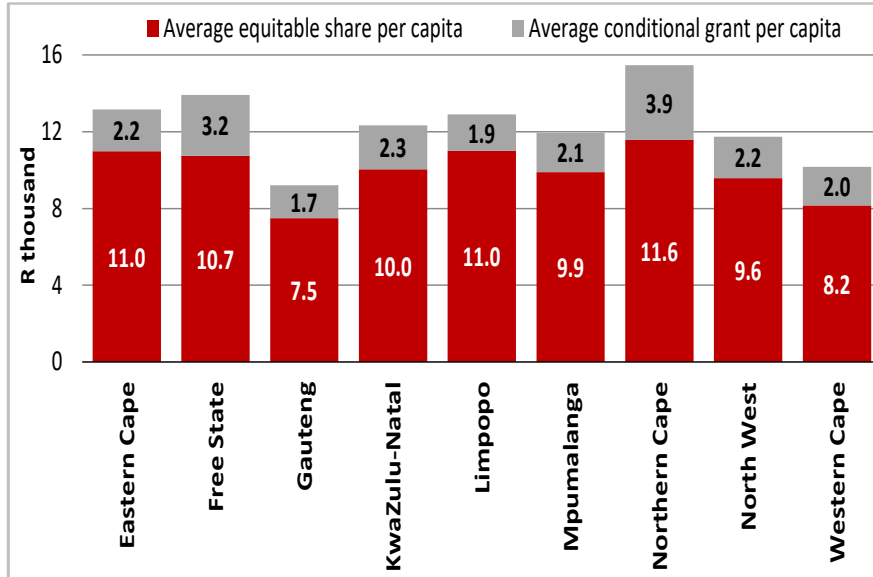
R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
<b>Division of available funds</b>								
<b>National departments</b>	<b>749.8</b>	<b>790.5</b>	<b>823.0</b>	<b>854.4</b>	<b>828.6</b>	<b>835.7</b>	<b>877.9</b>	<b>0.9%</b>
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	2.9	2.9	3.7	4.6	4.2	4.4	4.8	1.1%
<i>Indirect transfers to local government</i>	5.6	4.1	5.7	7.2	8.5	8.9	9.3	8.9%
<b>Provinces</b>	<b>613.4</b>	<b>628.8</b>	<b>660.8</b>	<b>694.6</b>	<b>695.1</b>	<b>720.5</b>	<b>754.7</b>	<b>2.8%</b>
Equitable share	505.6	520.7	544.8	570.9	567.5	587.5	614.3	2.5%
Conditional grants	107.9	108.1	116.0	123.7	127.5	133.0	140.4	4.3%
<b>Local government</b>	<b>123.0</b>	<b>137.1</b>	<b>135.6</b>	<b>147.8</b>	<b>164.0</b>	<b>174.4</b>	<b>183.3</b>	<b>7.4%</b>
Equitable share	65.6	83.1	76.2	83.7	96.5	103.8	109.4	9.3%
Conditional grants	44.2	40.0	44.8	48.7	52.0	54.5	57.1	5.4%
General fuel levy sharing with metros	13.2	14.0	14.6	15.3	15.4	16.1	16.8	3.2%
Provisional allocation not assigned to votes <sup>1</sup>	–	–	–	–	1.5	3.9	4.0	
<b>Non-interest allocations</b>	<b>1 486.2</b>	<b>1 556.4</b>	<b>1 619.4</b>	<b>1 696.8</b>	<b>1 689.1</b>	<b>1 734.4</b>	<b>1 819.9</b>	<b>2.4%</b>
<i>Percentage increase</i>	12.2%	4.7%	4.0%	4.8%	-0.5%	2.7%	4.9%	
Debt-service costs	204.8	232.6	268.1	307.2	340.5	362.8	397.1	8.9%
Contingency reserve	–	–	–	–	5.0	5.0	5.0	
Unallocated reserve	–	–	–	–	–	35.7	44.5	
<b>Main budget</b>	<b>1 691.0</b>	<b>1 789.0</b>	<b>1 887.5</b>	<b>2 004.0</b>	<b>2 034.6</b>	<b>2 137.9</b>	<b>2 266.5</b>	<b>4.2%</b>
<i>Percentage increase</i>	12.2%	5.8%	5.5%	6.2%	1.5%	5.1%	6.0%	
<b>Percentage shares</b>								
<i>National</i>	50.4%	50.8%	50.8%	50.4%	49.1%	48.3%	48.3%	
<i>Provinces</i>	41.3%	40.4%	40.8%	40.9%	41.2%	41.6%	41.6%	
<i>Local government</i>	8.3%	8.8%	8.4%	8.7%	9.7%	10.1%	10.1%	

1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations

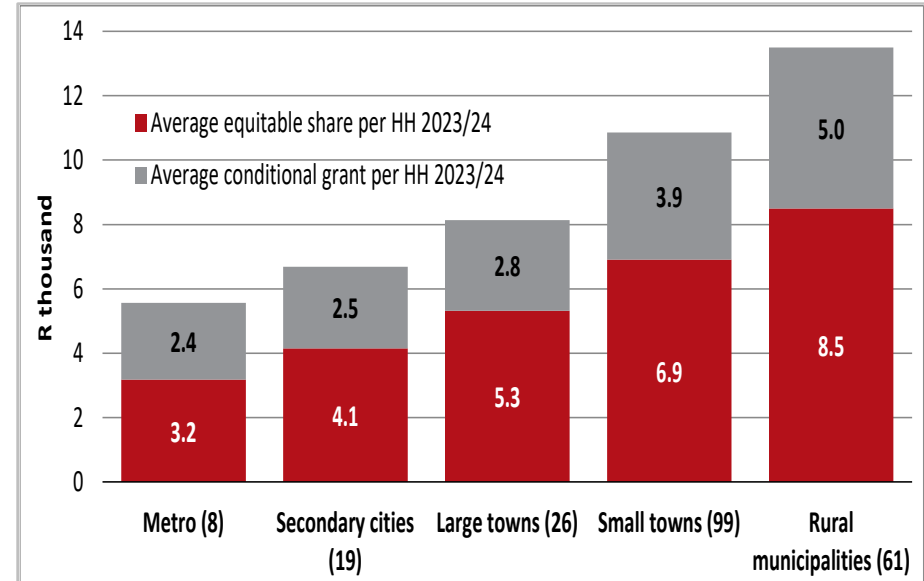
Source: National Treasury

# The Division of Revenue is highly redistributive

Per capita allocations to provinces, 2023/24



Per household allocations to municipalities, 2023/24



- Though the tax base is concentrated in urban areas, rural areas receive more per capita/per household through Division of revenue
  - Transfers per household to the most rural municipalities are more than twice as large as those to metropolitan municipalities
  - More rural provinces receive higher allocation per capita than urban provinces

# Provincial government allocations



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# Provincial transfers, 2023 MTEF

Table W1.5 Total transfers to provinces, 2023/24

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	73 292	14 637	87 928
Free State	31 380	9 280	40 660
Gauteng	120 752	27 437	148 189
KwaZulu-Natal	115 948	26 320	142 267
Limpopo	65 349	11 329	76 678
Mpumalanga	46 674	9 734	56 408
Northern Cape	15 150	5 095	20 245
North West	40 096	9 093	49 190
Western Cape	58 886	14 474	73 360
Unallocated		146	146
<b>Total</b>	<b>567 528</b>	<b>127 544</b>	<b>695 072</b>

Source: National Treasury

- Transfers to provinces account for 97 per cent of provincial revenue in 2023/24
- Provincial equitable share grows at an average annual growth rate of 2.5 per cent, whilst conditional grants at 4.3 per cent
- Funds have been added to provincial transfers to:
  - Respond to existing spending pressures
  - Support projects approved through BFI
  - Repair and rehabilitate infrastructure damaged by disasters

# Technical updates to the Provincial Equitable Share formula

- Updates made to the PES formula for the 2023 MTEF include:
  - Technical updates to all components with the most recent data where possible
  - Continuation of phasing-in changes to health components resulting from PES review

Component	Data used
Education	Mid-Year Population Estimates 2022 age cohorts (new data) 2022 School enrolment (new data)
Health	2022 Mid-Year Population Estimates (new data) Insured population (2021 GHS) (new data) <b>Risk adjusted index (new data)</b> <ul style="list-style-type: none"> <li>• <i>Population covered by a medical scheme</i> <ul style="list-style-type: none"> <li>– 2020/21 CMS (new data)</li> <li>– 2018 GHS (old data)</li> </ul> </li> <li>• <i>Total fertility rate (new data)</i></li> <li>• <i>Premature Mortality (new data)</i></li> </ul> Patient load data (DHIS 2019/20 – 2020/21) (new data)
Basic	2022 Mid-Year Population Estimates (new data)
Poverty	2022 Mid-Year Population Estimates (new data) Income and Expenditure Survey (IES) 2010/11
Economic	GDP-R 2019 (old data)
Institutional	Not applicable (data not used)

## Education (48%)



- School aged population
- Enrolled pupils

## Health (27%)



- Population without medical aid, adjusted for health risk
- Hospital and clinic use

## Basic (16%)



- Allocated based on:
- Share of population

## Institutional (5%)



- Divided equally amongst provinces

## Poverty (3%)



- Allocated based on:
- Share of poverty

## Economic (1%)



- Based on share of GDP-R



# Changes to Provincial Equitable Share allocations

- Responding to existing spending pressures
  - R20 billion over the MTEF is added for CoE pressures within the education sector. Funding is made up of R5.7 billion, R6.7 billion and R7.6 billion for the 3 years of the MTEF
  - R23.5 billion over the MTEF is added for the health sector. The funds are for ART and TB backlogs, healthcare services backlogs, CoE pressures, laboratory services, medicines, and other goods and medical supplies. Funds are made up of R7.5 billion, R7.8 billion and R8.1 billion
  - R31.1 billion over the MTEF is added for CoE for the carry though costs of the 2022/23 wage implementation. Funding is made up of R10.2 billion, R10.4 billion and R10.5 billion. Funding is allocated using PES formula
  - R631 million is added in 2023/24 to fund arrears in the compensation of izinduna in KwaZulu-Natal
- Projects approved through BFI
  - R1.8 billion over the MTEF is added as part of the BFI approved funding for the Coega SEZ that was going to flow through DTIC will now flow through PES. Funds are made up of R298 million, R632 million and R848 million

# Changes to provincial conditional grants (1 of 2)

## Education

- R1.6 billion is added to the Early Childhood Development Grant to increase the number of children accessing the early childhood development subsidy, provide pre-registration support to early childhood development centres, and pilot a nutrition support programme and a results-based service delivery model. Funding is made up of R587 million in 2024/25 and R985 million in 2025/26
- R1.5 billion is added over the MTEF to the National School Nutrition Programme Grant to ensure that the meals provided to almost 9 million learners meet the nutritional requirements
- R1.5 billion is added to the Education Infrastructure Grant for Gauteng Schools Programme. Funding is made up of R495 million, R503 million and R498 million. The funding is approved through BFI
- R300 million in 2023/24 is added to the Education Infrastructure Grant for the carry through costs for disasters that happened in April 2022

## Transport

- R6.8 billion is added to the Provincial Roads Maintenance Grant for the backlog in refurbishment of provincial roads. Funding is made up of R1.2 billion, R2.3 billion and R3.4 billion
- R3.7 billion is added to the Provincial Roads Maintenance Grant for the building of modular steel bridges (rural bridges) under the Welisizwe Rural Bridges Programme. Funding is made up of R1 billion, R1.3 billion and R1.4 billion. The funding is approved through BFI
- R307 million is added through Provincial Roads Maintenance Grant in 2023/24 for the carry through costs for disasters that happened in April 2022

# Changes to provincial conditional grants (2 of 2)

## Agriculture

- R153 million is added to the Comprehensive Agricultural Support Programme Grant for KwaZulu-Natal agri-hubs. Funding is made up of R8 million in 2023/24, R86 million in 2024/25 and R58 million in 2025/26. The funding is approved through BFI

## Health

- Limpopo Central Hospital funding has been rescheduled to align with the cash flow requirements. The current baselines are rescheduled with the following amounts -R372 million, R432 million and R569 million

## Human settlements

- Provincial Emergency Housing grants ceases to exist from 2023/24 as funds are shifted to national department to allow for flexibility and timeous response to housing emergencies

# Measles outbreak

**There has been a measles outbreak in a number of provinces**

- Post the tabling of the 2023 Budget, National Treasury has been engaging Department of Health on the funding for measles
- Parliament is requested to allow National Treasury to amend some of the health conditional grants when gazetting in terms of section 16 to allow for funds to be used for responding to measles outbreak
- The exact wording to be included in the grant framework is still being finalised between National Treasury and Department of Health

# Local government allocations



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# Local government transfers, 2023 MTEF

- Transfers to local government account for 10 per cent of nationally raised revenue
  - Majority of local government revenues are raised by municipalities through their revenue raising powers
- Overall direct allocations to local government grow by annual average of 5.9 per cent over the MTEF
- The *local government equitable share* grows at a faster rate, at an annual average rate of 8.1 per cent over the MTEF

R million	2022/23 Adjusted budget	2023/24	2024/25	2025/26
		Medium-term estimates		
<b>Direct transfers</b>	<b>154 188</b>	<b>163 972</b>	<b>174 382</b>	<b>183 330</b>
<b>Equitable share and related</b>	<b>87 311</b>	<b>96 546</b>	<b>103 772</b>	<b>109 368</b>
Equitable share formula <sup>1</sup>	80 023	88 978	95 853	101 099
RSC levy replacement	6 249	6 524	6 817	7 123
Support for councillor remuneration and ward committees	1 040	1 044	1 102	1 146
<b>General fuel levy sharing with metros</b>	<b>15 335</b>	<b>15 433</b>	<b>16 127</b>	<b>16 849</b>
<b>Conditional grants</b>	<b>51 542</b>	<b>51 992</b>	<b>54 484</b>	<b>57 113</b>
Infrastructure	48 857	49 733	52 123	54 646
Capacity building and other	2 685	2 259	2 361	2 467
<b>Indirect transfers</b>	<b>8 171</b>	<b>8 481</b>	<b>8 862</b>	<b>9 259</b>
Infrastructure	8 030	8 335	8 709	9 099
Capacity building and other	140	147	153	160
<b>Total</b>	<b>162 359</b>	<b>172 453</b>	<b>183 244</b>	<b>192 589</b>

# Local government equitable share

- Allocated through a formula to ensure fairness for all 257 municipalities
- Formula has updated data for:
  - Household growth: 2,7% growth in StatsSA's 2021 GHS
  - Bulk water: 8.9% average water board bulk price increases
  - Bulk electricity: 20.7% based on previously approved Multi-Year Price Determination (MYPD)
  - Projected CPI for other costs
- The formula is fully funded to account for HH growth and cost increases over the MTEF
  - R8.1 billion is added to the LGES to increase coverage of the provision of free basic services



**Free basic services**  
**R70.9 billion**  
 R528.29 per month for a package of free basic services for SA households with an income of less than 2 old age pensions per month

**Institutional**  
 R6.7 billion to assist with administration costs

**Community Services**  
 R10 billion to fund community services

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

Government also allocates just over R1 billion in 2023/24 to subsidise the cost of councillor remuneration

# Changes to local government allocations (1 of 3)

## **Additions to the *local government equitable share***

- R2.5 billion in 2023/23, R2.3 billion in 2024/25 and R3.3 billion in 2025/26 to fully fund the provision of free basic services

## **Public Transport Network Grant**

- R8 million in 2024/25 and R13 million in 2025/26 is reprioritised out of this grant to fund the roll out of the Single Integrated Ticketing System

## **Discontinuation of the Municipal Emergency Housing Grant**

- The *municipal emergency housing grant* is discontinued and its baseline shifted to the vote of the department of Human Settlements for the same purpose



# Changes to local government allocations (2 of 3)

## BFI – rescheduling

- R461 million over the MTEF is added to the *public transport network grant* to align funding with the revised implementation plan and cash flow projections for the City of Cape Town’s MyCiTi public transport network project, funded from the BFI
- R136 million is reduced from the *direct regional bulk infrastructure grant* in 2023/24, and R1.4 million added in 2024/25 to align funding with the revised implementation plan and cash flow projections for George Local Municipality’s potable water security and remedial works project

# Changes to local government allocations (3 of 3)

## BFI - new allocations

- eThekweni Metro is allocated R88 million in 2023/24 and R118 million in 2024/25 for the implementation of phase 1 of the Avoca Node Programme
- City of Johannesburg is allocated R385 million in 2024/25, R654 million in 2024/25 and R963 million in 2025/26 for the implementation of the Lufhereng Mixed Use Development Programme
- Sol Plaatje Local Municipality is allocated R86 million in 2023/24, R492 million in 2024/25 and R574 million in 2025/26 to refurbish and renew old water supply infrastructure
- Drakenstein Local Municipality is allocated R305 million in 2023/24, R593 million in 2024/25 and R481 million in 2025/26 to upgrade sanitation infrastructure
- Nelson Mandela Bay is allocated R348 million in 2023/24, R250 million in 2024/25 and R390 million in 2025/26 to avert the water supply crisis from the ongoing drought over the short term

# Division of Revenue Bill Clauses and Schedules



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# Substantive changes to the Bill clauses (1 of 2)

## Section 5 - Equitable division of local government share among municipalities

- Subsection (3) is amended to allow for the amendment of LGES payment dates if the transfer of funds is stopped in terms of section 216(2) of the Constitution

## Section 7 - Conditional allocations to provinces

- In line with the change made in the 2022 Division of Revenue Amendment Act, clauses are added to section 7 in the Bill to allow for the pledging of provincial grants

## Section 13 - Duties of receiving officer in respect of infrastructure conditional allocations to provinces

- Subsection (1)(g) is amended to include the transferring officer and relevant provincial treasury on the submission of final reports on infrastructure programmes partially or fully funded from the relevant grants

## Section 16 - Expenditure in terms of purpose and subject to conditions

- Subsection (3) is amended to require that transfers made to other organs of state, by receiving officers, are gazetted before the transfers are made; and make it explicit that if unspent, these allocations are subject to section 21(1) – they must revert to the National Revenue Fund unless approved for a roll-over

# Substantive changes to the Bill clauses (2 of 2)

## Section 18 - Stopping of allocations

- A clause is added to put deadlines for the submission of requests by transferring officers, provincial treasuries and receiving officers to stop allocations
- Subsection (2)(b) is amended to include transferring officers in the National Treasury's notification informing provincial treasuries of its intention to stop allocations

## Section 22 – Payment requirements

- Subsection (2) is amended to include paragraph (e) to allow for amendments to the LGES amounts determined in terms of paragraph (a) if the transfer of funds is stopped in terms of section 216(2) of the Constitution or offset in terms of section 21(4)(a)(ii)

## Section 31 – Liability for costs incurred in violation of principles of cooperative governance and intergovernmental relations

- Amended to include a clause that requires that where an organ of state decides to institute judicial proceedings against another organ of state, it must, within 10 working days of its decision, notify the National Treasury, the relevant provincial treasury, the Department of Cooperative Governance and the Auditor-General, of the details of compliance with Chapter 4 of the Intergovernmental Relations Framework Act, 2005, including an explanation of the failure to resolve the dispute

# Changes to the Schedules of the Bill

- Emergency housing grants are omitted from Schedule 7, Parts A and B

# Thank You

The Division of Revenue Bill, 2023, which includes details of changes to allocations to each province and municipality is available at:

<http://www.treasury.gov.za/documents/national%20budget/2023/default.aspx>