

2024 DIVISION OF REVENUE BILL

Briefing for the Select Committee on Appropriations

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



Overview of the presentation

- Overview of the 2024 Division of Revenue
- Provincial government allocations
- Local government allocations
- Changes to the Bill Clauses and Schedules

Additional information

- Government's responses to the FFC's recommendations (Details in Annexure W1 to the 2024 Division of Revenue Bill)
- Responses to Committee Recommendations (Details in Annexure A to the 2024 Budget Review)

2024 DIVISION OF REVENUE BILL



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2024 Division of Revenue

- National share of revenue increases at an annual average rate of 2.6 per cent
- Transfers to provinces increase at an average annual rate of 3.8 per cent, with the equitable share growing faster than the conditional grants
 - Mainly due to additional allocations to equitable share, mainly for education and health
- Transfers to local government grow at an average annual rate of 5.2 per cent

Division of nationally raised revenue, 2024 MTEF

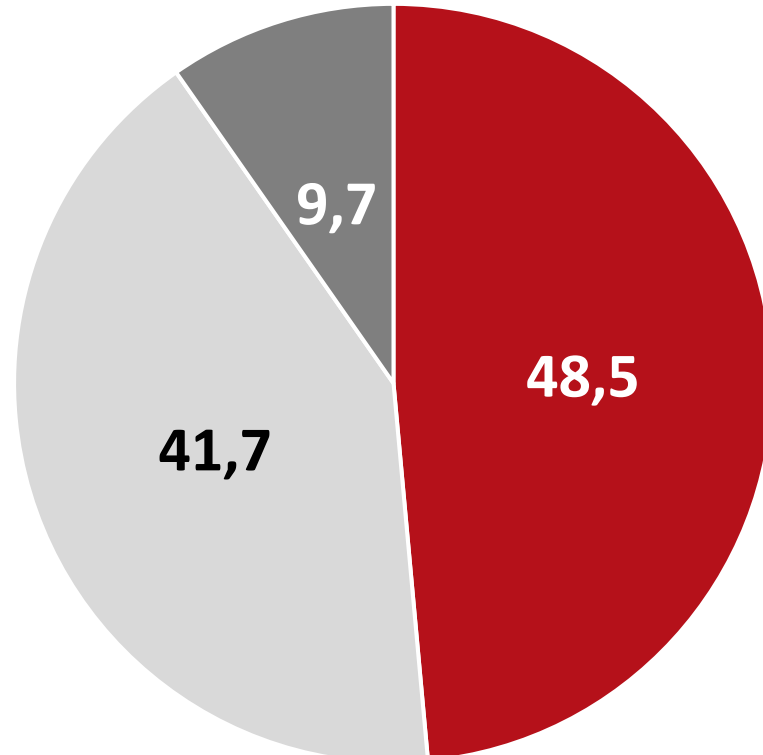
R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	790,5	822,8	855,9	823,9	848,5	853,7	890,5	2,6%
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	3,0	3,8	3,5	4,0	3,8	4,2	4,2	1,5%
<i>Indirect transfers to local government</i>	4,1	5,7	7,0	8,3	7,1	7,5	8,0	-1,1%
Provinces	628,8	660,8	694,1	706,4	729,5	760,9	790,8	3,8%
Equitable share	520,7	544,8	570,9	585,1	600,5	627,4	655,7	3,9%
Conditional grants	108,1	116,0	123,3	121,3	129,0	133,4	135,1	3,7%
Local government	137,1	135,6	150,7	157,8	170,3	177,7	183,8	5,2%
Equitable share	83,1	76,2	83,9	92,7	101,2	106,1	110,7	6,1%
Conditional grants	40,0	44,8	51,4	49,7	53,0	54,7	55,5	3,8%
General fuel levy sharing with metros	14,0	14,6	15,3	15,4	16,1	16,8	17,6	4,5%
Provisional allocation not assigned to votes ¹	–	–	–	–	0,6	41,1	53,5	
Non-interest allocations	1 556,4	1 619,2	1 700,7	1 688,1	1 748,8	1 833,3	1 918,5	4,4%
<i>Percentage increase</i>	4,7%	4,0%	5,0%	-0,7%	3,6%	4,8%	4,6%	
Debt-service costs	232,6	268,1	308,5	356,1	382,2	414,7	440,2	7,3%
Contingency reserve	–	–	–	–	5,0	7,6	14,5	
Main budget	1 789,0	1 887,3	2 009,2	2 044,2	2 136,0	2 255,6	2 373,2	5,1%
<i>Percentage increase</i>	5,8%	5,5%	6,5%	1,7%	4,5%	5,6%	5,2%	
<i>Percentage shares</i>								
National	50,8%	50,8%	50,3%	48,8%	48,5%	47,6%	47,7%	
Provinces	40,4%	40,8%	40,8%	41,8%	41,7%	42,5%	42,4%	
Local government	8,8%	8,4%	8,9%	9,3%	9,7%	9,9%	9,9%	

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

Source: National Treasury

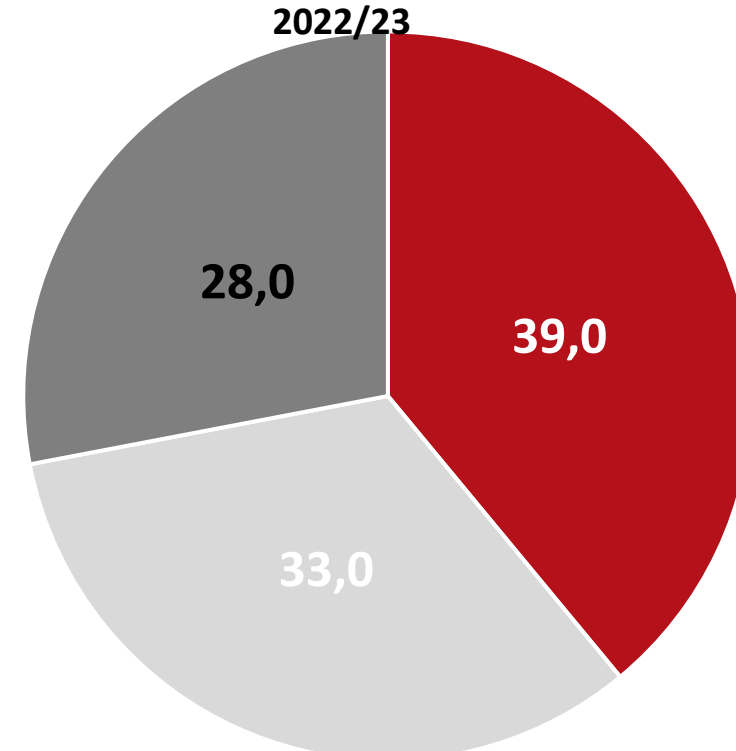
Division of Revenue from two lenses

2024/25 Division of revenue



■ National departments ■ Provinces ■ Local government

DoR including provincial and municipal own revenue -



■ National departments ■ Provinces ■ Local government

- The Division of Revenue is presented at the level of the “Main Budget” and does not reflect the substantial own revenues raised by municipalities (and smaller provincial own revenues)
- If these are included, local government accounts for more than a quarter of the total revenue raised by the 3 spheres

PROVINCIAL GOVERNMENT ALLOCATIONS



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Provincial transfers, 2024 MTEF

Total transfers to provinces, 2024/25

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	78 093	14 759	92 852
Free State	33 091	9 548	42 639
Gauteng	127 992	27 891	155 883
KwaZulu-Natal	121 145	25 396	146 541
Limpopo	69 625	11 779	81 404
Mpumalanga	49 499	10 099	59 599
Northern Cape	16 143	5 224	21 367
North West	42 816	9 284	52 100
Western Cape	62 071	14 854	76 926
Unallocated		149	149
Total	600 476	128 984	729 459

- Transfers to provinces account for 97 per cent of provincial revenue in 2024/25
- Provincial equitable share grows at an average annual growth rate of 3.9 per cent, whilst conditional grants at 3.7 per cent
- Changes to provincial transfers include a combination of reductions and additional allocations to the equitable share
 - Additional allocations are mainly to respond to wage pressures, mainly in education and health

Technical updates to the Provincial Equitable Share formula (1 of 2)

Data availability

- Some of the components of the equitable share formula will continue to be updated with data used in 2023 MTEF
- At the time of determining the formula, there was no official release of mid-year population estimates by Statistics South Africa for 2023
 - This was replaced with the anticipated official release of the 2022 Census
 - Most of the 2022 Census data needed to make annual technical updates to the formula was not yet available
 - The only data available is from the 2022 mid-year population estimates, which have been used to inform the updates in the current formula for the 2024 MTEF
- Similarly, the economic activity component uses regional GDP data used in the 2023 MTEF
 - Statistics South Africa is reviewing the methodology that informs the determination of regional GDP
 - The 2019 regional GDP is the last official data published by Statistics South Africa and informs the updates for the equitable share formula over the 2024 MTEF period

Technical updates to the Provincial Equitable Share formula (2 of 2)

- Updates made to the PES formula for the 2024 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 2023 School enrolment (new data)
Health	2022 Mid-Year Population Estimates Insured population – 2021/22 Council for Medical Schemes data (new data) – 2022 General Household Survey (new data) Total fertility rate Premature Mortality Patient load data (DHIS 2021/22 - 2022/23) (new data)
Basic	2022 Mid-Year Population Estimates
Poverty	2022 Mid-Year Population Estimates Income and Expenditure Survey (IES) 2010/11
Economic	GDP-R 2019
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

Reductions

- To respond to fiscal pressures, the provincial equitable share is reduced by R19.6 billion in 2024/25, R20.6 billion in 2025/26 and R21.3 billion in 2026/27

Reprioritisations and additions

- The 2023 MTBPS announced an additional R68.2 billion to cover the carry-through cost of 2023 public-service wage agreement for education and health
 - R3.9 billion has since been redirected to the provincial conditional grants in these two sectors that fund employee compensation
 - R136 million has been redirected to the conditional grants in the education sector and R3.8 billion to the conditional grants in the health sector
 - Remaining R64.2 billion remains in the provincial equitable share and is allocated to provinces through the equitable share formula
- A further R37.3 billion has been added to the provincial equitable share over the MTEF, mainly for education and health, to continue to support provinces with the cost pressures emanating from the public-service wage agreement

Changes to provincial conditional grants

Reductions

- To respond to fiscal pressures, provincial conditional grants are reduced by R26.8 billion over the MTEF
 - Reductions amount to R6 billion in 2024/25, R9 billion in 2025/26 and R11.8 billion in 2026/27

Reprioritisations

- R1.1 billion was previously added to the Early Childhood Development Grant to pilot a nutrition support programme and a result-based service delivery model
 - These funds are reprioritised to national government over the medium term as the nutrition support programme and result-based service delivery model will be implemented by national government
- R737 million is shifted from National Health Insurance Grant to the National Tertiary Services Grant, to allow for the funding of oncology services to be consolidated under a single conditional grant
- To improve the management of the National Health Insurance Indirect Grant, the Personal Services component and the Non-Personal services component have been merged to form a new Health Systems Component

Additions

- The Western Cape Rapid Schools Build Programme has been provisionally allocated funding over the MTEF period through the BFI
 - Funds for 2024/25 will flow at the time of the 2024 Adjustment Budget provided the Western Cape Education Department meets the stipulated conditions

Changes to direct provincial transfers

- Due constrained fiscal environment, a careful balance had to be made to ensure that the fiscal framework is credible
- This meant some funds had to be reduced for fiscal consolidation and redirected to other pressing government priorities:
 - Net additions to provinces after accounting for reductions and reprioritisations is R19.3 billion over the MTEF. Made up of net addition of R40 billion to provincial equitable share

Revisions to direct transfers to provincial government				
R million	2024/25	2025/26	2026/27	MTEF total revision
Additions to baseline	33 803	35 089	36 577	105 469
Provincial equitable share	32 559	33 782	35 207	101 548
Conditional grants	1 244	1 307	1 371	3 921
Reductions to baselines	-24 806	-28 909	-32 420	-86 135
Provincial equitable share	-19 583	-20 611	-21 337	-61 531
Conditional grants	-5 223	-8 297	-11 083	-24 604
Net changes to baseline	8 997	6 180	4 157	19 334
Provincial equitable share	12 976	13 171	13 870	40 017
Conditional grants	-3 979	-6 991	-9 713	-20 683

LOCAL GOVERNMENT ALLOCATIONS



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Local government transfers, 2024 MTEF

- Transfers to local government account for 9.8 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 5.2 per cent over the MTEF
- The *local government equitable share* grows at an annual average rate of 6.1 per cent over the MTEF


Transfers to local government, 2024 MTEF

R million	2023/24	2024/25	2025/26	2026/27
	Adjusted budget	Medium-term estimates		
Direct transfers	160 619	170 294	177 656	183 775
Equitable share and related	95 189	101 178	106 087	110 661
Equitable share formula ¹	87 621	93 460	98 063	102 295
RSC levy replacement	6 524	6 647	6 909	7 207
Support for councillor remuneration and ward committees	1 044	1 071	1 115	1 160
General fuel levy sharing with metros	15 433	16 127	16 849	17 621
Conditional grants	49 997	52 990	54 720	55 493
Infrastructure	47 465	50 918	52 604	53 281
Capacity building and other	2 532	2 072	2 116	2 213
Indirect transfers	8 297	7 098	7 540	8 034
Infrastructure	8 150	6 954	7 389	7 876
Capacity building and other	147	145	151	158
Total	168 916	177 393	185 196	191 810

1. Outcome figures for the equitable share reflect amounts transferred after funds have been withheld to offset

Local government equitable share

- Allocated through a formula to ensure fairness for all 257 municipalities
- Formula has updated data for:
 - Bulk water: 10.8 per cent (average water board bulk price increases)
 - Bulk electricity: 12.7 per cent (average of the Multi-Year Price Determination – 5)
 - Projected CPI for other costs
- The formula fully funds an estimated 11.2 million poor households



Free basic services
R76.1 billion
 R567.12 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
 R6.9 billion to assist with administration costs

Community Services
 R10.4 billion to fund community services

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

Government also allocates just over R1.1 billion in 2024/25 to subsidise the cost of councillor remuneration

Changes to local government allocations

Reductions reversed and reductions adjusted downwards

- Previous reductions of R5.1 billion proposed to the general fuel levy sharing with metropolitan municipalities have been reversed
- Previous reductions to the integrated national electrification programme (municipal) grant, municipal disaster response grant and the municipal systems improvement grant were revised downwards

Further reductions

To make funds available for other government priorities, reductions have been made to some municipal conditional grants over the 2024 MTEF period. Some of these include:

- Additional reduction of R3.5 billion to the integrated national electrification programme (Eskom) grant
- Additional reduction of R852 million to the indirect component of the regional bulk infrastructure grant

Conversions

- R58 million in 2024/25 is converted from the direct component of the MIG to the indirect component
- R587 million from the direct component of the Regional Bulk Infrastructure Grant is converted to the indirect component

Reprioritisations and additions

- R1.4 billion is shifted to the Municipal Disaster Recovery Grant to fund the repair and recovery of municipal infrastructure damaged by disasters
- R2 billion is shifted to fund the baseline for the new Smart Meters Grant
- R650 million is added in 2024/25 to the Neighbourhood Partnership Development Grant to fund the Cities Public Employment Programme

Changes to local government conditional grants over the 2024 MTEF

Introduction of the Smart Meters Grant

- To be introduced from 2024/25:
 - Administered by the National Treasury
 - Initial focus to be municipalities currently in the municipal debt relief programme
- Envisaged benefits:
 - Timely and accurate billing
 - Reduction of losses (technical and non-technical)
 - Better overall management of the electricity/water business through improved system integration, visibility and control
 - Sustainable electricity/water operations towards efficient trading services that are cost reflective and self-sustainable

Urban Trading Service (water, electricity and solid waste) Reforms

- City trading services performance is declining – This has been driven by under investment in infrastructure, loss of management and skills, governance and leadership challenges, poor incentives in grants to leverage sustained performance etc
- Failing service delivery esp in the cities undermines South Africa's economic growth and social transformation agenda given they are engines of growth accounting of more than 60% of GDP
- Nat Treasury in collaboration with key sectors is facilitating the design of a programme with a financing incentive to facilitate institutional reform and investment needed to turnaround urban trading services
- Implementation is envisaged to start in 2024/25 with cities developing turnaround strategies to be eligible for the new grant that will be effective from 2025/26

Enhancing the usage of regulatory frameworks in conditional grants system

- Use of results from DWS's Watch Reports in the prioritisation of water and sanitation projects funded from general purpose grants (USDG, IUDG and MIG)
- From 2024/25, municipalities are required to ensure that the results of the green drop, blue drop and no drop assessments are considered in the planning and prioritisation of projects (IUDG and MIG)

DIVISION OF REVENUE BILL CLAUSES AND SCHEDULES



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Substantive changes to the Bill clauses (1 of 2)

Most of the Bill clauses remain the same from one year to the next. Changes in the 2024 Bill include:

- **Section 10 - Duties of transferring officer in respect of Schedule 5 or 6 allocations**
 - *Problem addressed: clarifies that the transferring officers of schedule 6 allocations are responsible for monitoring indirect grants and that this is applicable to both municipal and provincial grants*
 - **Sub-clause (5)** is revised to include Schedule 6 allocation to make clear that, like Schedule 5 allocations, the transferring officer of a Schedule 6 allocation must monitor financial and non-financial performance on programmes funded by the allocation
- **Section 12 - Duties of receiving officer in respect of Schedule 5 or 7 allocations**
 - *Problem addressed: allows for municipalities that have been accredited to perform the ISUP to have certainty of the allocations and enables better planning*
 - **Sub-section (6)(a)** is updated to include, in the Gazette required in terms of this clause, planned expenditure for each year of the MTEF from the Informal Settlements Upgrading Partnership Grant: Provinces (ISUPG: Provinces), per municipality with level one or level two accreditation of the ISUP
 - In line with the change above, **subsection 6(c)** is updated to include amendments to allocations from the ISUPG: Provinces in the Gazette amending allocations published in terms of paragraphs (a)
- **Section 14 - Duties in respect of annual financial statements and annual reports for 2024/25**
 - *Problem addressed: addresses ambiguity in compliance phrasing, clarifying measures and extent*
 - **Subsection(2)(b)** is amended to require that, the annual reports of national departments responsible for transferring an allocation in Schedule 4, 5 or 7 indicate the systems used to monitor compliance with the Act

Substantive changes to the Bill clause (2 of 2)

- **Section 16 - Expenditure in terms of purpose and subject to conditions**
 - *Problem addressed: clarifies when the shifts come into effect, which is the date of publication of the notice*
 - **Subsection (2)** which provides for components within a conditional allocation; as well the shift of funds between such components through publication of a notice in the *Gazette* is amended to make clear that such shifts come into effect on the date of publication of the notice
 - *Problem addressed: ensures that when a municipality is accredited to administer the ISUP, funds accordingly flow to it to enable it to perform this function*
 - **Subsection 7(a)** is updated to include applicability of the ISUPG: Provinces to the requirements that have to be met following a municipality getting level one or two accreditation of the ISUP or assignment of the function. These include the receiving officer and relevant municipality agreeing on a payment schedule; and submitting it to the National Treasury, through the relevant provincial treasury
- **Section 20 - Conversion of allocations**
 - *Problem addressed: Enables provincial treasuries to monitor performance and assess feasibility, thereby helping National Treasury make informed decisions*
 - **Subsection (1)** is updated to include consultation with provincial treasuries when converting an indirect allocation to a direct allocation
- **Section 25 - New allocations during financial year and Schedule 7 allocations**
 - *Problem addressed: was previously misinterpreted to mean funds must be transferred within a 100 days after the occurrence of a disaster. This certainly helps to treat the immediate response to disasters with the urgency it deserves*
 - **Subsection 3(a)** which requires that funds from immediate response grants be transferred “within 100 days after the date of the disaster” is amended to make clear that a 100 days count starts from the day of classification of a disaster
 - *Problem addressed: allows the NDMC to get receiving officers to treat immediate response with the urgency it requires. In its approval letters to receiving officers, the NDMC will now be able specify the expenditure timelines, on a case-by-case basis, considering the situation at hand*
 - **Subsection 3(d)** is revised to enable the National Disaster Management Centre to stipulate a timeframe within which schedule 7 allocations must be spent

Changes to the Schedules of the Bill

- Schedule 6, Part B is updated to include a new Smart Meters Grant that will be funding the installation of bi-directional smart metering systems in municipalities

Thank You

The Division of Revenue Bill, 2024, which includes details of changes to allocations to each province and municipality is available at:

<http://www.treasury.gov.za/documents/national%20budget/2024/default.aspx>

ANNEXURES

- Government's responses to the FFC's recommendations
- Responses to SeCoA recommendations on the 2023 MTBPS (as contained in Annexure A to the 2024 Budget Review)



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Responses to the FFC's recommendations



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Government's responses to the FFC's recommendations (1 of 2)

Chapter 4 - Assessing the response to climate change in local government

Commission recommended: “National Treasury, together with COGTA and the DPW&I, should, as a starting point, revise formats for the infrastructure grant frameworks to include climate change response specifications so as to be able to gradually achieve climate resilient infrastructure, with a strategic approach in the medium to long term of incorporating climate change mitigation and adaptation measures to all infrastructure related projects”

Governments response: The government recognises that all municipalities should prioritise the construction of climate resilient infrastructure. Nonetheless, this process cannot be solely regulated through conditional grants. Conditional grants are established according to relevant sectoral policies, standards, and norms. Project appraisal officers must ensure that the specifications and engineering designs of each project align with these provisions, inclusive of those pertaining to climate change.

Chapter 5 - Investigating spatial inequalities and the efficacy of municipal spending in driving local economic development

Commission recommended: “...the Minister of COGTA and the Minister of Finance should critically review the local government fiscal framework...”

Governments response: National Treasury is currently conducting a comprehensive review of the fiscal framework. The findings will undergo a rigorous consultative process, and all reforms will be phased in incrementally. It must be noted though that the diagnostic review of capacity building has indicated that poor local government performance is not primarily funding-related but is a result of systematic issues

Government's responses to the FFC's recommendations (2 of 2)

Chapter 5 - Investigating spatial inequalities and the efficacy of municipal spending in driving local economic development

Commission recommended: “Careful attention must be given to the funding mechanism of conditional grants and the Commission thus recommends that COGTA and National Treasury develop an appropriate funding mechanism or funding plan in a targeted and phased approach, which enhances the capacity of municipalities to spend conditional grants effectively. The DDM must be strengthened and financed for local government to fulfil its developmental role.”

Governments response: The National Treasury and COGTA are continuously reviewing and improving funding mechanisms to ensure effective spending of conditional grants. Through the conditional grants review process currently underway, government will work towards developing an appropriate funding mechanism for conditional grants in a targeted and phased approach while improving the capacity of municipalities to spend effectively

Funding to institutionalise the District Development Model is available through the Municipal Systems Improvement Grant for the 2024 MTEF period.

Responses to SeCoA recommendations on the 2023 DoRAB



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Responses to SeCoA recommendations on the 2023 MTBPS

Summary of the recommendations made by SeCoA on the on the proposed Division of Revenue and conditional grant allocations to provinces and municipalities as contained in the 2023 MTBPS

Recommendation	Minister's Response
<p>The National Treasury, together with the Department of Public Service and Administration, the Department of Planning, Monitoring and Evaluation and the Presidency should, within 60 days of the adoption of this Report by the House, ensure that clear plans are developed to expedite the review and reconfiguration of the executive functions to address duplications and inefficiencies.</p>	<p>The National Treasury notes the recommendation. It will continue to engage with the Presidency and other relevant institutions to expedite the reconfiguration of the state.</p>
<p>The National Treasury and provincial treasuries should, within 90 days of the adoption of this Report by the House, take steps to ensure that the Provincial Equitable Share (PES) task team expedite the review of the education component, ensuring that proper consultation with relevant stakeholders is conducted.</p>	<p>The technical review of the education component has been completed and consultations are now in progress.</p>
<p>The National Treasury, together with provincial treasuries and provincial departments should, within 60 days of the adoption of this Report by the House, take steps to ensure that the wage agreement is effectively implemented by provincial departments of education and health, and funds are utilised for their intended purpose.</p>	<p>The National Treasury is responsible for allocating funds to provinces and provincial legislatures are responsible for deciding how these funds are used through the provincial budget process.</p>
<p>The National Treasury should, within 60 days of the adoption of this Report by the House, take steps to fast-track the process of developing compulsory national norms and standards to regulate municipal surcharges on electricity and to identify alternative sources of revenue.</p>	<p>The National Treasury welcomes this recommendation.</p>
<p>The National Treasury, together with the Department of Water and Sanitation should, within 60 days of the adoption of this Report by the House, take steps to finalise the proposed conditions to ensure that the Urban Settlements Development Grant, the Integrated Urban Development Grant, and the Municipal Infrastructure Grant (MIG) are aligned with the Green Drop, Blue Drop and No Drop assessment to improve water management and wastewater systems.</p>	<p>The National Treasury welcomes this recommendation. It and the Department of Water and Sanitation are engaging the Department of Human Settlements and the Department of Cooperative Governance, as the transferring departments of these grants, to finalise the proposed conditions. This will promote efficient water management systems and sustainable development.</p>
<p>The Committee once again recommends that National Treasury review the funding model of local government and calls for more meaningful commitments to increase the proportion of the nationally raised revenue allocated to local government. The Committee further calls upon all municipalities to use their funds more effectively and productively to ensure value for money.</p>	<p>The National Treasury agrees with the need to review the funding model for local government. Chapter 6 outlines the work under way on this matter, including reviewing the funding model for local government and improving the local government equitable share formula, over the MTEF period.</p>