

# 2011 Division and Revenue Bill

## Standing and Select Committees on Appropriations

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Outline

- Legal basis of Division of Revenue Bill (DoRB)
- Recommendations by Committees on Appropriations as they relate to 2011 DoRB
- Layout of 2011 DoRB and Act
- 2011 Division of Revenue Bill
  - Changes to 2010 Division of Revenue Act
- FFC proposals for 2011 MTEF and government's response
- Fiscal framework
- Provincial and local government allocations

# The legal basis of the DOR Bill

- The Constitution and IGFR Act require an annual Division of Revenue (DoR) Bill
- Section 76(4) of Constitution requires that DoR Bill must be tabled in NA, and go to NCOP thereafter
- Money Bills Amendment Procedure and Related Matters Act (MBAPRMA) impact on DOR Bill
  - When budget is tabled, a report must also be tabled that responds to the recommendations made by Parliamentary Committees on Appropriations regarding proposed division of revenue and conditional grant allocations to provinces and local governments as contained in MTBPS
  - The report must explain how DoR Bill and national budget give effect to, or the reasons for not taking into account, the recommendations contained in the Committee reports

***Updated responses to the  
Recommendations by Standing and  
Select Committees on  
Appropriations (as they relate to the  
2011 division of revenue)  
and  
responses to 2010 MTBPS***

# Standing Committee – Implications for 2011 Division of Revenue Bill (1 of 4)

Committee Recommendation	Response
<p data-bbox="40 348 958 529"><b>Effective monitoring and accountability instruments during budget implementation</b></p> <ul data-bbox="104 548 1020 762" style="list-style-type: none"><li data-bbox="104 548 1020 762">– Given the increase in the budget, the Committee recommends effective monitoring and accountability instruments during budget implementation</li></ul>	<ul data-bbox="1060 348 1812 786" style="list-style-type: none"><li data-bbox="1060 348 1663 394">– Recommendation supported</li><li data-bbox="1060 408 1812 679">– Significant efforts made to introduce planning, budgeting and reporting frameworks that promote monitoring and accountability during budget implementation<ul data-bbox="1155 694 1711 786" style="list-style-type: none"><li data-bbox="1155 694 1638 739">– S32 of PFMA (provinces)</li><li data-bbox="1155 743 1711 786">– S71 of MFMA (municipalities)</li></ul></li></ul>
<p data-bbox="40 819 967 929"><b>Provinces should have detailed savings plans</b></p> <ul data-bbox="104 948 1020 1286" style="list-style-type: none"><li data-bbox="104 948 1020 1108">– Provinces should come up with detailed saving plans and promote value for money in their spending</li><li data-bbox="104 1122 1020 1286">– Provincial departments and parastatals should reflect their amount and areas of savings during their quarterly reporting</li></ul>	<ul data-bbox="1060 819 1889 1210" style="list-style-type: none"><li data-bbox="1060 819 1889 1210">– Potential savings by reducing non-core spending in provinces of R13.3b in 2010 MTEF was identified. National Treasury conducts benchmarking exercises with provinces during which excessive spending on non-core items is interrogated (details available)</li></ul>

# Standing Committee – Implications for 2011 Division of Revenue Bill (2 of 4)

Committee Recommendation	Response
<p><b>Review scholar transport policy</b></p> <ul style="list-style-type: none"> <li>– Dept of Basic Education in conjunction with Dept of Transport should urgently review scholar transport policy to address challenge of learners walking excessive long distances to school. The portfolio committee on basic education should monitor this very closely</li> </ul>	<ul style="list-style-type: none"> <li>– Responsibility of the Portfolio Committee on Basic Education (supported by the Departments of Basic Education and Transport)</li> </ul>
<p><b>Address overdraft that consume grant funds</b></p> <ul style="list-style-type: none"> <li>– National Treasury must facilitate discussions with Provincial Treasuries and provincial depts of LG to address overdraft facilities that consume grant funds. Grants need to be better managed to ensure prudent spending and achievement of intended objectives</li> </ul>	<ul style="list-style-type: none"> <li>– Agree that steps must be taken to prevent grants being used to repay municipal overdrafts or interest thereon</li> <li>– Grant frameworks for conditional grants stipulate that only projects that are ready for implementation be funded</li> <li>– New budget formats require more transparent reporting on use of conditional grants</li> </ul>

# Standing Committee – Implications for 2011 Division of Revenue Bill (3 of 4)

Committee Recommendation	Response
<p><b>Assessment of conditional grants</b></p> <ul style="list-style-type: none"> <li>National depts in conjunction with NT to determine impact and extent to which grant objectives have been achieved prior to termination. More consultation with, and oversight be performed by parliamentary committees prior to termination</li> </ul>	<ul style="list-style-type: none"> <li>All transferring national officers are required to report to NT every quarter and perform a grant evaluation at end of year               <ul style="list-style-type: none"> <li>These reports are made available on request to Parliament</li> </ul> </li> <li>In 2011 additional reporting requirements for infrastructure grants introduced which will enable Parliament and Legislatures to exercise increased oversight of these grants</li> </ul>
<p><b>Depts of Energy and Environmental Affairs should address backlogs in water and sanitation at schools</b></p> <ul style="list-style-type: none"> <li>As Govt terminates grants for backlogs in electricity, water and sanitation at clinics and schools, Depts of Energy and Water Affairs should provide sufficient funding to address remaining backlogs</li> </ul>	<ul style="list-style-type: none"> <li>The Schools Infrastructure Backlogs Grant is a grant-in-kind to be admin by national dept of Basic Education to address backlogs in schools over 2011 MTEF</li> <li>National Dept of Health commissioned a facilities survey during 2010/11 and will use this data to identify where backlogs in basic services to clinics exist. Provinces will be expected to use new Health Infrastructure<sup>7</sup> Grant to address these backlogs</li> </ul>

# Standing Committee – Implications for 2011 Division of Revenue Bill (4 of 4)

Committee Recommendation	Response
<p><b>Dept of Health to reconsider moratorium on vacancies</b></p> <ul style="list-style-type: none"> <li>– The Committee recommends that the Dept of Health should reconsider its moratorium on vacancies and other outstanding issues which will eventually enable it to address capacity issues</li> </ul>	<ul style="list-style-type: none"> <li>– In 2009/10 provinces over spent on personnel in health. This trend is projected to continue in 2010/11</li> <li>– Caution required w.r.t. appointment of personnel in health - provinces to prioritise front line staff but caution against appointing staff that may lead to over expenditure</li> </ul>
<p><b>During the 2010 MTBPS, the following recommendations were made:</b></p> <ul style="list-style-type: none"> <li>– Standing Committee on Appropriations, having considered the 2010 MTBPS, recommends:             <ul style="list-style-type: none"> <li>• Dept of Higher Education and Training should continue to improve quality levels of qualifications obtained for Further Education Technical institutions</li> <li>• That House adopts 2010 MTBPS</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Agreed. This should be monitored by the Portfolio Committee responsible for Higher Education and Training</li> </ul>

# Select Committee – Implications for 2011 Division of Revenue Bill (2010 DoRB hearings) (1 of 3)

Committee Recommendation	Response
<p data-bbox="40 344 935 458"><b>Conditional grant for Early Childhood Development (ECD)</b></p> <ul data-bbox="104 476 935 751" style="list-style-type: none"><li data-bbox="104 476 935 751">– National Treasury should introduce a grant for ECD for national Dept of Basic Education in order to ensure that ECD is prioritised as one of the key functions of the national Dept of Basic Education</li></ul>	<ul data-bbox="962 344 1901 793" style="list-style-type: none"><li data-bbox="962 344 1901 565">– Agrees that appropriate resources need to be directed towards this function. Expenditure on this function increases from R1.6b in 2009/10 to R2.7b in 2010/11 and R3.4b in 2013/14</li><li data-bbox="962 579 1901 793">– The creation of a conditional grant will not solve problems that currently exist, especially if function cannot be clearly ring-fenced and/or monitored</li></ul>
<p data-bbox="40 808 935 922"><b>Universities to be established in Mpumalanga and Northern Cape</b></p> <ul data-bbox="104 941 935 1279" style="list-style-type: none"><li data-bbox="104 941 935 1279">– National Dept of Higher Education and Training should establish, at least, one University (in phases focusing on scarce skills) in Mpumalanga and Northern Cape provinces before the end of the 2009-2014 government term</li></ul>	<ul data-bbox="962 808 1901 1093" style="list-style-type: none"><li data-bbox="962 808 1901 1093">– Funding of R300 million over 2011 MTEF made available for the establishment of these two universities. Department of Higher Education and Training will take responsibility for building these facilities</li></ul>

# Select Committee – Implications for 2011 Division of Revenue Bill (2010 DoRB) (2 of 3)

Committee Recommendation	Response
<p><b>Include senior leaders of provincial govts in review of provincial equitable share</b></p> <ul style="list-style-type: none"><li>– NT should consider the need to include senior leaders of provinces in task team dealing with review of Provincial Equitable Shares formula to ensure that views and concerns of provinces are taken on board and there is a common understanding by all stakeholders involved on how equitable shares are allocated</li></ul>	<ul style="list-style-type: none"><li>– Senior govt officials on national and provincial levels formed part of task teams working on the health and education components, where progress was regularly reported to TCF and Budget Council</li></ul>

# Select Committee – Implications for 2011 Division of Revenue Bill (2010 DoRB) (3 of 3)

Committee Recommendation	Response
<p><b>Introduce a special grant to build capacity at genuinely poor municipalities</b></p> <ul style="list-style-type: none"> <li>– Support mechanisms be developed to identify and support all municipalities that are 100% dependent on conditional grants. NT may want to introduce a special grant for such municipalities</li> </ul>	<ul style="list-style-type: none"> <li>– Substantial resources directed through LG equitable share to support poorer resourced municipalities, which are continued for 2011 MTEF               <ul style="list-style-type: none"> <li>– No municipality 100% dependent on conditional grants</li> </ul> </li> <li>– A conditional grant to build capacity of these municipalities to form part of longer term review of LG fiscal framework</li> </ul>
<p><b>NT should engage with FFC and StatsSA on data used in equitable share formula municipalities</b></p> <ul style="list-style-type: none"> <li>– NT should engage with FFC, StatsSA and relevant stakeholders to compile data for equitable share formula that is reasonable, fair and equitable given outdatedness of Census</li> </ul>	<ul style="list-style-type: none"> <li>– Recommendation noted and supported</li> <li>– The availability of data up to municipal level to be explored as part of review of local government equitable share formula</li> </ul>

# Select Committee – Implications for 2011 Division of Revenue Bill (2010 MTBPS)

Committee Recommendation	Response
<p><b>Overall expenditure of Govt needs to be at 50% at end of 2nd quarter</b></p> <ul style="list-style-type: none"> <li>– Overall expenditure of Govt at the end of 2<sup>nd</sup> quarter needs to be at 50%. This will most likely lead to improved quality of spending and reduce the level of unauthorised spending and fiscal dumping at the end of the financial year</li> </ul>	<ul style="list-style-type: none"> <li>– Actual expenditure needs to be in line with projections as contained in payment schedule (expenditure is not necessarily equally spread throughout a financial year)</li> </ul>
<p><b>DCoG should consult on SPV</b></p> <ul style="list-style-type: none"> <li>– DCoG should consult Govt and other relevant stakeholders w.r.t. proposed Special Purpose Vehicle to avoid duplication of Govt programmes</li> </ul>	<ul style="list-style-type: none"> <li>– DCoG has substantially consulted on SPV since 2010 MTBPS</li> <li>– SPV refocused to support municipalities that lack capacity to roll out services/infrastructure</li> </ul>
<p><b>Under spending on health conditional grants</b></p> <ul style="list-style-type: none"> <li>– Dept of Health should investigate reasons for under-spending of grants and discourage tendency of returning funds to NT. This works against plans to transform our health institutions</li> </ul>	<ul style="list-style-type: none"> <li>– Agrees. This should be the case for all conditional grants</li> </ul>

# Layout of 2011 DoR Bill and DoR Act (1 of 2)

- Layout of Bill
  - Bill consists of 39 clauses
  - Schedules 1 to 9 divide revenue between 3 spheres and within spheres
    - Sch 1: Division of Revenue between 3 spheres
    - Sch 2: Provincial equitable shares among 9 provinces
    - Sch 3: LG equitable shares among 278 municipalities
    - Sch 4: Other transfers to provinces and municipalities supplementing programmes funded from ‘own resources’
    - Sch 5: Specific purpose allocations to provinces
    - Sch 6: Specific purpose allocations to municipalities
    - Sch 7: Allocations in-kind to municipalities
    - Sch 8: Incentives to provinces and municipalities to meet targets for priority government programmes
    - Sch 9: Unallocated provision to cater for disasters (new)
  - Memo on objects of Bill

# Layout of 2011 DoR Bill and DoR Act (2 of 2)

- Layout of Bill
  - Attachments and appendices to Bill
    - Annexure W1 explains (1) how division took into account s214(2)(a to j) of Constitution; (2) 2011 division of revenue between 3 spheres; (3) Govt's response to FFC proposals; (4) allocations to provinces; (5) local government allocations; and (6) future reforms to fiscal framework issues in provinces/LG
    - Annexures W2-W3 provides conditional grant frameworks to provinces and LG
    - Remainder of Annexures and Appendices provide municipal allocation per grant and additional information on provincial and LG allocations
- Layout of Act
  - The Act only contains main part (clauses) and Schedules 1 to 8 (rest falls away)
    - Conditional grant frameworks for provincial and local government grants and municipal breakdown per local government conditional grant (Annexures W1-W8 and Appendices W1-W7) must be published in Government Gazette within 14 days of

# Amendments to 2010 Division of Revenue Act

- Amendments include
  - Elimination of provisions
    - Clauses on accreditation (housing) and disasters replaced
  - Amendment of existing provisions
    - Objects revised to improve alignment with stipulated purposes of a Division of Revenue Bill as listed in section 214 of Constitution
  - Alignment to reforms to provincial and local government fiscal frameworks (2011 Budget)
    - Infrastructure Grant to provinces replaced with Education Infrastructure Grant, Provincial Roads Maintenance Infrastructure Grant and Health Infrastructure Grant
    - School Infrastructure Grant introduced as a Grant-in-Kind to provinces
    - Urban Settlements Development Grant established by consolidating Municipal Infrastructure Grant (Cities) and a portion of Human Settlements Development Grant
    - Disaster Grants reformed

# New clauses to 2010 Division of Revenue Act (1 of 3)

- Improve national oversight over conditional grants
  - Withholding provisions strengthened
    - A maximum of 5% of Health Professionals Training and Development Grant and National Tertiary Services Grant may be withheld
    - Prior to withholding a local government conditional grant, consultation extended to the provincial department of local government
    - A minimum of 7 days to consult prior to withholding now prescribed (could be shortened previously)
  - Strengthening oversight over infrastructure grants for education, roads and health
    - Submission by provinces of lists of infrastructure projects for education, health and roads for 2011/12 and 2012/13 in line with infrastructure delivery improvement programme principles, which must be gazetted by Transferring National Officers. Allocations may be withheld if conditions not adhered to
    - Grant-in-kind extended to provinces (School Infrastructure Backlogs Grant) to fast-track the eradication of unsafe school structures

# New clauses to 2010 Division of Revenue Act (2 of 3)

- Housing accreditation
  - Human Settlements Development Grant allocations to municipalities (metros) receiving the Urban Settlements Grant Amendments to be determined within 14 days after enactment of Bill
  - Should a municipality receive Level 3 accreditation that portion of Human Settlement Development Grant to flow directly to municipality
- Disaster funding
  - New process allows for the speedy release of funds for immediate response (3 days to 3 months) after disaster has been declared
    - National Treasury to approve allocation, whereafter Transferring National Officer may release funds to province/municipality concerned
    - Allocation(s) to be gazetted within 28 days of transfer
    - Schedule 9 allocations must still be appropriated in provincial legislation and/or municipal budget

# New clauses to 2010 Division of Revenue Act (3 of 3)

- Additional provisions to deal with incentives earned on EPWP (to be included in Adjustments Budget if made before Nov or thereafter be appropriated in next budget)
- Provincial specific provisions
  - Transfer of funds from provincial treasury to provincial departments regulated i.t.o. payment schedule without infringing provincial treasury oversight
  - Provisions to allow MEC for finance to assign and/or delegate powers i.t.o this Act to a provincial treasury official
- Municipal specific provisions
  - Provision made for implementation of re-demarcations of municipal boundaries
  - Payment schedules for Schedule 4 and 6 conditional grants to local government to be made from 1 July to 31 March

# **FFC recommendations to 2011 MTEF and government response**

# FFC submission Ch 1: Global economic crisis, fiscal frameworks and coping with vulnerabilities

FFC recommendation	Draft government response
<ul style="list-style-type: none"> <li>In short term, Govt should continue to strive for fiscal consolidation to programmes that have demonstrably worked while refocusing expenditure to ensure better coordination and to deepen access by focusing on improved service quality. The Commission recommends (a) continued expansion of child support grant and old age pension grant; (b) sustaining high levels of access to education and health services; and (c) reprioritising expenditure towards repair and maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Government agrees that gains must not be lost and that fiscal consolidation is important. This limits the scope to expand social assistance</li> <li>The approach to reprioritize expenditure on repairs and maintenance is supported. Implementation of GIAMA will ensure that infrastructure assets are properly maintained</li> </ul>
<ul style="list-style-type: none"> <li>In medium to long term, Govt should (a) introduce a <b>block grant</b> for education, health and social development that funds clearly defined and costed outcomes in these areas; and (b) enable independent cost effectiveness and quality review of both public and private education, health and social wage</li> </ul>	<ul style="list-style-type: none"> <li>Government does not agree with the proposal to introduce block grants as it can potentially be unconstitutional</li> <li>Government agrees that independent cost effectiveness and quality reviews should be undertaken</li> </ul>

# FFC Ch 2: Options for social assistance reform during the period of fiscal stress

FFC recommendation	Draft government response
<ul style="list-style-type: none"><li>• Protect overall social-assistance expenditure during fiscal consolidation, in particular targeted social spending programmes</li><li>• Do not compromise the relative simplicity of the social assistance system especially when contemplating reform, strengthen non-cash complementary social developmental services through emphasising quality improvements , avoid universal income grants and <b><i>pilot conditional cash transfer and workfare programmes on a smaller scale, evaluate them in order to expand successful pilots</i></b></li></ul>	<p>– Government agrees with the recommendations, except the piloting of workfare programmes. Although pilots supported, pilots where cash benefits are given to individuals can be problematic. It will be difficult for government to exclude people from the pilot and if the pilot fails it will be very complicated to withdraw support that was provided</p>

# FFC Ch 3 :Towards an effective, efficient and transparent intergovernmental fiscal system

FFC recommendation	Draft government response
<p>When introducing and terminating conditional grants, national departments must (a) introduce a mandatory, systematic process for designing and planning individual conditional grants; and (b) ensure there is an independent evaluation of grant performance at entry, midterm and end of grant</p>	<ul style="list-style-type: none"> <li>– Government agrees with the recommendations</li> <li>– Guidelines on how to introduce and terminate conditional grants are available; the Commission’s recommendation that criteria for disbanding a grant should be identified when a grant is introduced is welcomed. Capacity should be developed within national and provincial depts and municipalities that are administering grants to perform entry, midterm and end of grant assessments. There should however be sufficient flexibility to introduce and terminate when there is a clear rationale to do so</li> </ul>
<p>Government should: (a) make the criteria for dividing grant allocations transparent; and (b) continue to emphasize importance of non-financial data reporting and should link outer year allocations to independently evaluated performance information and gazette expected deliverables</p>	<ul style="list-style-type: none"> <li>– Allocation criteria for grants are explained in relevant conditional grant frameworks</li> <li>– Govt will continue to emphasize importance of non-financial performance reporting. Performance audits at provincial levels should bring substantial improvements to quality of performance info. LG reforms are in place to develop proper reporting systems for financial reporting in municipalities and once in place focus will shift to reporting on non-financial info</li> </ul>

# FFC Ch 3 :Towards an effective, efficient and transparent intergovernmental fiscal system (contd)

FFC recommendation	Draft government response
<ul style="list-style-type: none"><li>• To ensure results-based accountability through incentive grants, national departments must make accounting for delivery a prerequisite for most conditional grants</li></ul>	<ul style="list-style-type: none"><li>– Recommendation is supported, however admin ability in provinces and municipalities requires strengthening before incentives are likely to have desired effect</li></ul>
<ul style="list-style-type: none"><li>• Budget allocation process must follow grant frameworks specifically and monitor through s32 of PFMA and s71 of MFMA</li></ul>	<ul style="list-style-type: none"><li>– Government agrees with proposal and monitoring is taking place through s32 of PFMA and s72 of MFMA</li></ul>

# FFC Ch 3 :Towards an effective, efficient and transparent intergovernmental fiscal system (contd)

## FFC recommendation

- To improve general performance of municipalities in revenue improvement and collection, it is recommended that Govt should (a) adopt standard early warning systems to detect fiscal stress in municipalities and reach consensus on them; (b) legislate revenue collection through s43 of LGMSA as one of key performance areas against which to assess overall municipal performance; (c) reduce excessive levels of municipal debt through constant taxpayer education and incentives to improve service provision. Enable LG to issue garnishee orders and dedicated courts to deal with outstanding municipal accounts

## Draft government response

- An early warning system is in place, anchored by budget formats i.t.o. Municipal Budget and Reporting Regulations, associated funding compliance assessment and monthly financial reports i.t.o. s71 of MFMA. Various legislation governs revenue collection by municipalities which place obligations on them to put in place policies, processes and systems to ensure sound mngt of municipalities' different own revenue sources. Legally, municipalities may apply to a court for a garnishee order. More can be gained from improving accuracy and completeness of municipal billing systems, and putting in place proper customer relations capacity. The idea of creating municipal debt courts can be considered in the medium term

# FFC Ch 3 :Towards an effective, efficient and transparent intergovernmental fiscal system (contd)

FFC recommendation	Draft government response
<p>To improve general performance of municipalities in revenue collection, it is recommended that Govt should (a) support efforts to estimate fiscal capacity and fiscal effort of municipalities to dispel perception that certain municipalities will never be financially viable; and (b) subjected revenue enhancement programmes to empirical tests that cover changes in (a) effective tax rates (b) tax burdens (c) yield, efficiency and overall fairness</p>	<p>– In consultation with national and provincial depts a guide has been issued on how interventions should take place w.r.t. financial matters. Agrees that certain municipalities ‘will never be financially viable’ is a misrepresentation. Various legislation governs revenue management in municipalities and NG is strengthening its capacity to monitor compliance with this legislation</p>

# FFC Ch 3 :Towards an effective, efficient and transparent intergovernmental fiscal system (contd)

FFC recommendation	Draft government response
<p>On reform of <b>LG equitable share formula</b>, the Commission recommends that Govt should (a) use the institutional component of the formula to assist poor municipalities, (b) remove step structure of differentiated tax in Revenue Raising Component (RRC), and (c) develop alternative methods of revenue prediction for RRC component</p>	<ul style="list-style-type: none"> <li>- Government agrees that changes are required to improve the way the local government equitable share is allocated between municipalities. Several adjustments are made to the local government equitable share formula (including the institutional and RRC components) this year</li> <li>- Further changes will be made after a full review of the formula in 2011</li> </ul>
<p>The FFC made a number of recommendations with respect to the EDI restructuring and establishment of Regional Electricity Distributors (REDs)</p>	<ul style="list-style-type: none"> <li>- The FFC recommendations were proposed before government resolved not to continue with the restructuring and establishment of the REDs</li> </ul>

# FFC Ch 4: Intergovernmental Fiscal Issues in Urban Public Transport

FFC recommendations	Draft government response
<p>Passenger Rail Agency of SA (PRASA) and cities should ensure that investment projects on rail and roads infrastructure are aligned and coordinated along A and B corridors of National Rail Plan</p>	<ul style="list-style-type: none"> <li>- The regulation function for public transport is being developed to support alignment and co-ordination of investment and planning for public transport services</li> <li>- Provision made for changes to funding flows for Public Transport Operations Grant in 2011 DoRA</li> </ul>
<p>Government should make an immediate decision on the funding for the Municipal Land Transport Fund as delays could negatively affect the financial position of affected municipalities</p>	<ul style="list-style-type: none"> <li>- National Land Transport Act requires the creation of a municipal land transport fund. into which grants and user charges from transport services and revenue from local taxes can be deposited. Municipalities can also apply to Minister of Finance to authorise a tax</li> </ul>
<p>PRASA should ensure funding for investment on commuter rail sector prioritises corridors already identified as A and B in National Rail Plan</p>	<ul style="list-style-type: none"> <li>- Government supports proposal</li> </ul>

# FFC Ch 4: Intergovernmental Fiscal Issues in Urban Public Transport

FFC recommendations	Draft government response
<p>Current mechanisms and basis for distributing transport subsidies should be reviewed to promote efficiency of urban transport and land use issues</p>	<ul style="list-style-type: none"> <li>– Introduction of new Human Settlements Grant to address informal settlements and accelerate urban land release</li> <li>– Current transport subsidies place ridership risks with cities</li> <li>– Cities will require support to take on these new roles</li> </ul>
<p>Potential financial implications resulting from promulgation of National Land Transport Act on municipalities should be examined by Dept of Transport and National Treasury</p>	<ul style="list-style-type: none"> <li>– Funding has been allocated to Dept of Transport for implementation of NLTA</li> <li>– Funding options to support the creation of regulatory capacity at local government will be reviewed</li> <li>– Funding also need to be shifted from provinces to LG as the Act transfers the function from provinces to LG</li> </ul>
<p>Department of Transport should regularly update the South African National Household Travel Survey</p>	<ul style="list-style-type: none"> <li>– Government supports recommendation. Funding has been allocated to Dept of Transport to update the SA National Household Travel Survey</li> </ul>

# Fiscal framework for 2011 MTEF

# Government spending and division of revenue

- Fiscal framework makes R94.1 billion available over MTEF. This includes savings of R30.6 billion, of which R21.6 billion is reprioritised to meet existing outcomes commitments, and R9 billion is added to the fiscal framework to provide more resources for government's priorities
- Division of revenue:
  - **National government:** R48.8 billion is added
  - **Provincial government:** R30.1 billion is added to equitable share  
R10.1 billion to conditional grants
  - **Local government:** R1.2 billion is added to equitable share  
R3.7 billion to conditional grants  
R0.3 billion for general fuel levy
- Over the next three years, expenditure is channeled towards government's 12 outcomes using government functional groupings as the basis for budgeting, with the main focus on:
  - Job creation
  - Education and skills development
  - Health
  - Human settlements
  - Rural development
- Details per function (across 3 spheres) provided in information section

# Division of revenue: 2007/08 - 2013/14

## Division of nationally raised revenue, 2007/08 – 2013/14

	2007/08	2008/09 Outcome	2009/10	2010/11 Revised estimate	2011/12	2012/13	2013/14
R million					Medium-term estimates		
<b>Division of available funds</b>							
National departments	242,580	289,236	345,366	359,120	380,154	408,439	439,049
Provinces	207,504	246,836	293,164	323,080	357,929	380,450	404,251
Equitable share	171,054	201,796	236,891	265,139	288,493	305,725	323,604
Conditional grants	36,451	45,040	52,073	57,941	69,436	74,724	80,647
Gautrain loan	–	–	4,200	–	–	–	–
<b>Local government</b>	<b>38,482</b>	<b>45,487</b>	<b>51,537</b>	<b>61,152</b>	<b>70,171</b>	<b>77,029</b>	<b>82,317</b>
Equitable share <sup>1</sup>	20,676	25,560	23,845	30,559	34,108	37,573	39,960
General fuel levy sharing	–	–	6,800	7,542	8,573	9,040	9,613
Conditional grants	17,806	19,928	20,892	23,051	27,490	30,416	32,743
<b>Total</b>	<b>488,566</b>	<b>581,560</b>	<b>690,068</b>	<b>743,353</b>	<b>808,254</b>	<b>865,919</b>	<b>925,617</b>
<i>Percentage shares</i>							
National departments	49.7%	49.7%	50.0%	48.3%	47.0%	47.2%	47.4%
Provinces	42.5%	42.4%	42.5%	43.5%	44.3%	43.9%	43.7%
Local government	7.9%	7.8%	7.5%	8.2%	8.7%	8.9%	8.9%

# Provincial framework for 2011 MTEF

# Key Revisions to Provincial Conditional Grants

- Infrastructure Grant to Provinces transformed into 3 sector conditional grants to ensure a more aligned approach to infrastructure roll out:
  - Health Infrastructure Grant
  - Education Infrastructure Grant
  - Provincial Roads Maintenance Grant
- New Schools Infrastructure Backlogs Grant
  - new allocation to address backlogs in inappropriate structures and will be administered as a grant-in-kind by Department of Basic Education and eradicate backlogs in three years
- New provisions in Division of Revenue Bill that aim to ensure provinces apply infrastructure planning and implementation best practices
- A portion of Human Settlements Development Grant is transferred to metros through new Urban Settlements Development Grant
- New Disaster Conditional Grant to Provinces
  - This is an unallocated grant to cater for immediate release of funds following a declared disaster

# Total transfers to provinces

**Table W1.6 Total transfers to provinces, 2011/12**

<b>R million</b>	<b>Equitable share</b>	<b>Conditional grants</b>	<b>Total transfers</b>
Eastern Cape	44,120	8,896	<b>53,016</b>
Free State	17,521	4,976	<b>22,497</b>
Gauteng	50,428	14,665	<b>65,094</b>
KwaZulu-Natal	62,928	13,314	<b>76,241</b>
Limpopo	36,349	6,912	<b>43,261</b>
Mpumalanga	23,379	5,197	<b>28,576</b>
Northern Cape	7,743	2,473	<b>10,216</b>
North West	19,271	4,541	<b>23,813</b>
Western Cape	26,754	8,156	<b>34,910</b>
Unallocated	–	305	<b>305</b>
<b>Total</b>	<b>288,493</b>	<b>69,436</b>	<b>357,929</b>

# The PES Formula in 2010

Equitable share component	Data used	Source
Education (51%)	Total enrolment numbers	National Department of Education: Enrolment figures (Annual)
	School-age cohort (6-17 years)	Census 2001
Health (26%)	Population with (1)and without medical aid support(4)	Stats SA: GHS (Annual) and Mid Year Estimates (Annual)
Basic Share (14%)	Population per province	Stats SA: Mid Year Estimates (Annual)
Institutional (5%)	Independent of data	
Poverty (3%)	Income	IES Survey (2005)
	Basic component share	Stats SA: MYE (Annual)
Economic activity (1%)	Gross geographic product	Stats SA: GDP-R (Annual, lag - 2007)

# Principles that should underpin an equitable share formula

- Transparency
- Simplicity
- Objectivity
- Principles underpinning changes to data are agreed to before their impacts are seen

# Provincial ES Fiscal Framework and Formula Review - Process

- First phase, undertaken by FFC, concluded during 2008 confirmed constitutional and policy principles that should underpin reforms to provincial fiscal framework and equitable share formula
- Second phase, led by NT, focused on review of equitable share formula
  - Education
    - Task team consisted of education experts, officials from depts of education and treasury (national and provincial)
    - Main expenditure item in education is personnel - quality teachers are key input
    - Although alternative models were explored, current education component retained
  - **Social development**
    - Addressed through Poverty Component
  - **Role of provinces in economic development**
    - Work ongoing
  - Health

# Provincial spending plans

## ***Equitable share:***

- R5.3 billion, R5.6 billion and R6.0 billion over the MTEF to cover the 7.5 per cent salary increase and R800 housing allowance
- R1.6 billion, R1.8 billion and R2 billion over and above this set aside for outstanding Occupational Specific Dispensation commitments in Education
- R1.7 billion, R3.8 billion and R4.8 billion to cover a range of pressures in health

## ***Conditional grants:***

### ***Direct transfers***

- R310 million, R560 million and R2.1 billion for hospitals and HIV and Aids prevention and treatment
- R566 million, R1.3 billion and R1.6 billion for provincial roads
- R641 million, R718 million and R804 million for municipal property rates on government accommodation
- R354 million, R536 million and R864 million for Further Education and Training colleges
- R50 million, R175 million and R275 for agricultural production
- R675 million for disasters, currently unallocated to provinces

### ***Indirect transfers***

- R8.2 billion over the MTEF to address schools infrastructure backlog

# Revisions to provincial baselines (1 of 2)

**Table W1.14 Revisions to provincial conditional grant baseline allocations, 2011/12 – 2013/14<sup>1</sup>**

R million	2011/12	2012/13	2013/14	2011 MTEF
<b>Technical adjustments</b>	<b>-2,578</b>	<b>-3,232</b>	<b>-3,821</b>	<b>-9,631</b>
<b>Health</b>	<b>–</b>	<b>-620</b>	<b>-1,154</b>	<b>-1,774</b>
Forensic pathology services	–	-620	-654	-1,274
Hospital revitalisation	–	–	-500	-500
<b>National Treasury</b>	<b>-13,091</b>	<b>-14,008</b>	<b>-14,778</b>	<b>-41,877</b>
Infrastructure grant to provinces	-13,091	-14,008	-14,778	-41,877
<i>Revised to:</i>	<b>13,091</b>	<b>14,008</b>	<b>14,778</b>	<b>41,877</b>
Education infrastructure	5,498	5,883	6,207	17,588
Health infrastructure	1,702	1,821	1,921	5,444
Provincial roads maintenance	5,891	6,303	6,650	18,845
<b>Human Settlements</b>	<b>-2,246</b>	<b>-2,339</b>	<b>-2,468</b>	<b>-7,053</b>
Human settlements development	-2,246	-2,339	-2,468	-7,053
<b>Public Works</b>	<b>-332</b>	<b>-273</b>	<b>-199</b>	<b>-804</b>
Expanded public works programme incentive for provinces	-533	-515	-485	-1,532
Social sector expanded public works programme incentive for provinces	200	242	286	728
<b>Savings effected on conditional grants</b>	<b>-71</b>	<b>-45</b>	<b>-54</b>	<b>-170</b>
<b>Human Settlements</b>	<b>-35</b>	<b>–</b>	<b>–</b>	<b>-35</b>
Human settlements development	-35	–	–	-35
<b>Health</b>	<b>-36</b>	<b>-45</b>	<b>-54</b>	<b>-135</b>
Hospital revitalisation	-36	-45	-54	-135



# Revisions to provincial baselines (2 of 2)

**Table W1.14 Revisions to provincial conditional grant baseline allocations,  
2011/12 – 2013/14<sup>1</sup>**

R million	2011/12	2012/13	2013/14	2011 MTEF
<b>Additions to baselines</b>	<b>2,227</b>	<b>3,433</b>	<b>5,852</b>	<b>11,512</b>
<b>Agriculture, Forestry and Fisheries</b>	<b>50</b>	<b>175</b>	<b>275</b>	<b>500</b>
Comprehensive agricultural support programme	50	120	230	400
Land care programme: Poverty relief and infrastructure development	–	55	45	100
<b>Cooperative Governance and Traditional Affairs</b>	<b>305</b>	<b>180</b>	<b>190</b>	<b>675</b>
Provincial disaster grant	305	180	190	675
<b>Higher Education and Training</b>	<b>354</b>	<b>536</b>	<b>864</b>	<b>1,754</b>
Further education and training colleges	354	536	864	1,754
<b>Health</b>	<b>310</b>	<b>560</b>	<b>2,110</b>	<b>2,980</b>
Comprehensive HIV and Aids	60	60	1,360	1,480
National tertiary services	250	500	750	1,500
<b>Public Works</b>	<b>641</b>	<b>718</b>	<b>804</b>	<b>2,163</b>
Devolution of property rate funds	641	718	804	2,163
<b>Transport</b>	<b>566</b>	<b>1,264</b>	<b>1,609</b>	<b>3,440</b>
Provincial roads maintenance	566	1,264	1,609	3,440
<b>Indirect transfers</b>	<b>700</b>	<b>2,315</b>	<b>5,189</b>	<b>8,204</b>
<b>Basic Education</b>	<b>700</b>	<b>2,315</b>	<b>5,189</b>	<b>8,204</b>
School infrastructure backlogs	700	2,315	5,189	8,204

1. Some national shifts and savings are not recorded in provincial conditional grant baselines.

# Provincial conditional grants (1 of 2)

**Table W1.15 Conditional grants to provinces, 2010/11 – 2013/14**

R million	2010/11	2011/12	2012/13	2013/14
<b>Agriculture, Forestry and Fisheries</b>	<b>1,167</b>	<b>1,487</b>	<b>1,684</b>	<b>1,867</b>
Agricultural disaster management	50	–	–	–
Comprehensive agricultural support programme	862	1,029	1,148	1,315
Ilima/Letsema projects	200	400	420	443
Land care programme: Poverty relief and infrastructure development	55	58	116	109
<b>Arts and Culture</b>	<b>513</b>	<b>543</b>	<b>571</b>	<b>602</b>
Community library services	513	543	571	602
<b>Basic Education</b>	<b>7,107</b>	<b>10,546</b>	<b>11,331</b>	<b>11,954</b>
Dinaledi schools	–	70	100	106
Education infrastructure	3,206	5,498	5,883	6,207
HIV and Aids (life skills education)	188	199	209	221
National school nutrition programme	3,663	4,579	4,928	5,199
Technical secondary schools recapitalisation	50	200	210	222
<b>Cooperative Governance and Traditional Affairs</b>	<b>214</b>	<b>305</b>	<b>180</b>	<b>190</b>
Provincial disaster	–	305	180	190
Provincial infrastructure disaster relief	214	–	–	–
<b>Health</b>	<b>20,483</b>	<b>23,948</b>	<b>25,746</b>	<b>28,175</b>
Comprehensive HIV and Aids	6,052	7,493	8,825	10,607
Forensic pathology services	557	590	–	–
Health infrastructure	840	1,702	1,821	1,921
Health professions training and development	1,865	1,977	2,076	2,190
Hospital revitalisation	3,771	4,136	4,336	4,068
National tertiary services	7,398	8,049	8,689	9,389

# Provincial conditional grants (2 of 2)

	2010/11	2011/12	2012/13	2013/14
<b>R million</b>				
<b>Higher Education and Training</b>	<b>3,804</b>	<b>4,326</b>	<b>4,705</b>	<b>5,262</b>
Further education and training colleges	3,804	4,326	4,705	5,262
<b>Human Settlements</b>	<b>13,033</b>	<b>14,942</b>	<b>15,599</b>	<b>16,457</b>
Housing disaster relief	134	–	–	–
Human settlements development	12,899	14,942	15,599	16,457
<b>Public Works</b>	<b>2,181</b>	<b>2,271</b>	<b>2,505</b>	<b>2,778</b>
Devolution of property rate funds	1,865	1,803	1,938	2,091
Expanded public works programme incentive for provinces	259	267	325	402
Social sector expanded public works programme incentive for provinces	57	200	242	286
<b>Sport and Recreation South Africa</b>	<b>426</b>	<b>452</b>	<b>475</b>	<b>501</b>
Mass sport and recreation participation programme	426	452	475	501
<b>Transport</b>	<b>9,013</b>	<b>10,616</b>	<b>11,929</b>	<b>12,860</b>
Gautrain rapid rail link	438	5	–	–
Overload control	11	–	–	–
Provincial roads maintenance	4,700	6,457	7,568	8,259
Public transport operations	3,863	4,153	4,361	4,601
<b>Total</b>	<b>57,941</b>	<b>69,436</b>	<b>74,724</b>	<b>80,647</b>
<b>Indirect transfers</b>	<b>–</b>	<b>700</b>	<b>2,315</b>	<b>5,189</b>
School infrastructure backlogs	–	700	2,315	5,189

# Provincial equitable shares

## Provincial Equitable Shares 2010/11 -2013/14

Rand '000	2010/11	2011/12	2012/13	2013/14
Eastern Cape	40 134 424	44 120 028	46 495 024	48 931 829
Free State	15 959 310	17 520 835	18 430 860	19 363 325
Gauteng	45 134 335	50 428 480	53 973 066	57 699 363
Kw aZulu-Natal	56 742 834	62 927 556	66 877 612	70 992 966
Limpopo	33 237 814	36 348 545	38 104 133	39 884 915
Mpumalanga	21 323 198	23 378 714	24 570 021	25 786 476
Northern Cape	7 101 615	7 742 909	8 207 056	8 688 325
North West	17 314 124	19 271 431	20 562 274	21 912 710
Western Cape	24 026 091	26 754 333	28 505 403	30 344 499
<b>Total</b>	<b>260 973 745</b>	<b>288 492 831</b>	<b>305 725 449</b>	<b>323 604 408</b>

# Outcomes of review

- Cabinet endorsed that the structure of the formula be retained (6 components)
- But changes to the components:
  - health and education components weights change to 27% and 48% respectively which reflects expenditure shares of these sectors (conditional grants excluded)
  - Basic Component increases to 16%
  - A new health component is introduced in the 2011 Division of Revenue

# Average expenditure shares

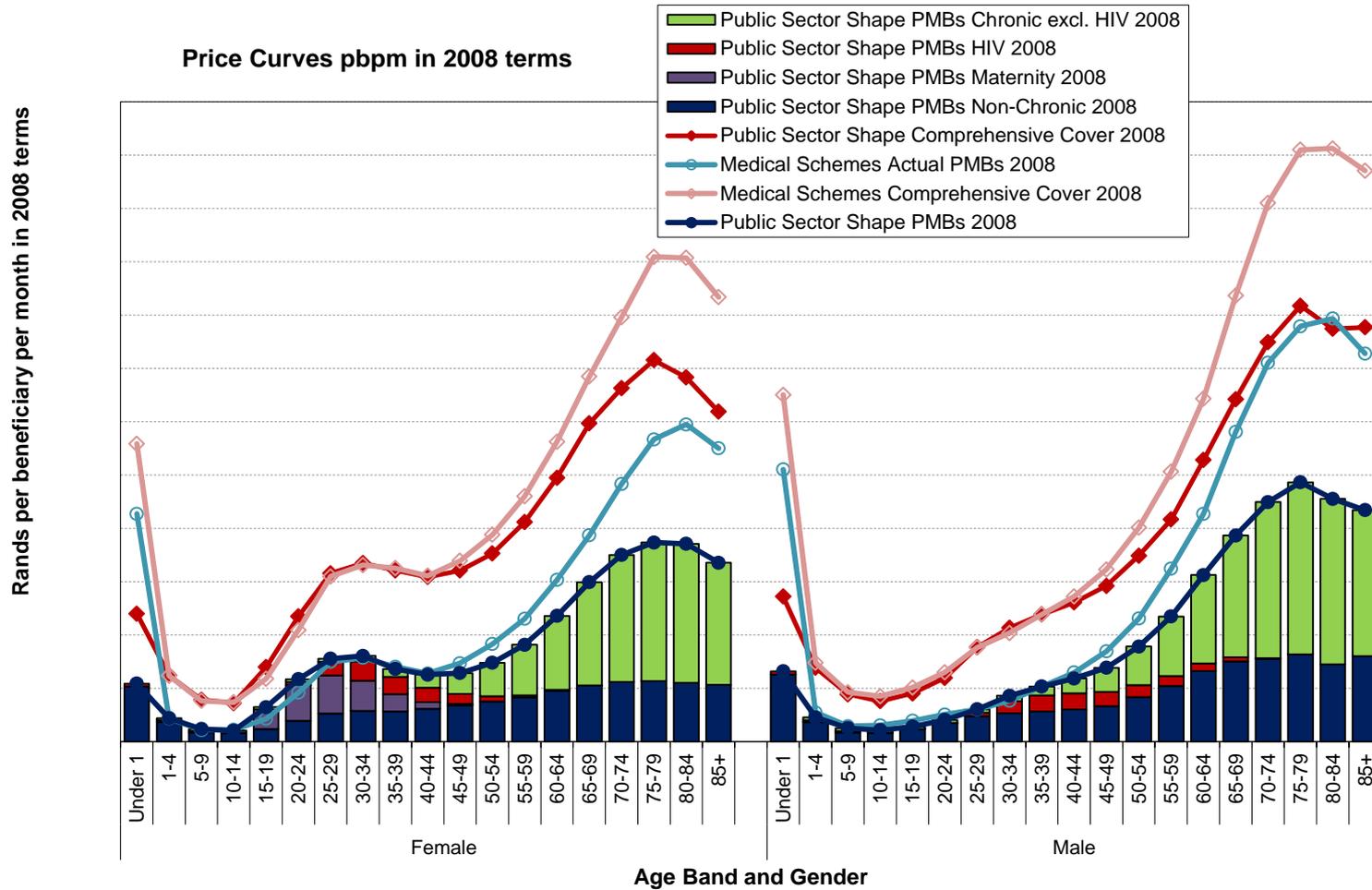
**Table 7: Health and Education expenditure as a percent of total**

	Education				Health			
	2007/08	2008/09	2009/10	Average	2007/08	2008/09	2009/10	Average
Eastern Cape	51.7%	49.7%	51.5%	51.3%	25.4%	26.8%	26.8%	26.3%
Free State	50.6%	49.5%	50.7%	50.2%	26.4%	25.7%	26.0%	25.9%
Gauteng	42.7%	40.4%	42.5%	42.5%	30.1%	28.4%	29.9%	29.9%
Kw aZulu-Natal	45.6%	46.4%	46.6%	46.7%	33.0%	30.5%	31.9%	31.5%
Limpopo	51.7%	52.2%	55.0%	52.6%	25.1%	26.3%	25.8%	25.4%
Mpumalanga	52.3%	51.6%	52.3%	52.3%	22.8%	22.6%	24.3%	23.3%
Northern Cape	47.0%	48.2%	48.3%	46.6%	23.4%	21.9%	24.3%	23.8%
North West	46.5%	47.0%	48.2%	47.7%	25.3%	25.3%	25.4%	24.6%
Western Cape	43.5%	43.3%	44.0%	43.6%	30.4%	29.9%	31.9%	30.2%
				48.2%				26.8%

# New health component

- An approach and model has been developed
  - Establishes more specific health component
  - Health “add ons” to equitable share removed
- Based on PHC, hospital and other functions
- Balance between
  - Risk adjusted capitation
    - Population and Insurance coverage, weighted by age, gender +/- HIV, maternity, with some adaption for public sector
  - Outputs
    - uses data reported in the District Health Information System (DHIS). Normative costing for patient day equivalents, differentiated for clinics, regional hospitals and district. Normative budgets are estimated based on patient load which is ‘equalised’
  - Other services component covers other sub-programmes: Admin, EMS, health service support, training, which is distributed by risk adjusted capitation

# Examples of actuarial curves



# Impact of new health component

**Table W1.10 New health component weighted shares**

Percentage	Weighted shares updated with GHS and mid-year population estimates		Weighted shares 2011 MTEF	Difference in weighted shares
	2010 MTEF	2011 MTEF	25% output, 75% risk adjusted	
Eastern Cape	14.0%	14.1%	14.1%	0.03%
Free State	5.9%	5.6%	5.9%	0.38%
Gauteng	19.9%	20.8%	20.2%	-0.62%
KwaZulu-Natal	22.2%	22.1%	22.4%	0.27%
Limpopo	11.3%	11.7%	10.6%	-1.10%
Mpumalanga	7.5%	7.4%	7.0%	-0.41%
Northern Cape	2.4%	2.2%	2.3%	0.11%
North West	6.7%	6.5%	7.0%	0.47%
Western Cape	10.1%	9.6%	10.5%	0.88%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>—</b>

# The PES Formula for 2011

Equitable share component	Data used	Source
Education (48%)	Total enrolment numbers	National Department of Education: Enrolment figures
	School-age cohort (6-17 years)	Census 2001
Health (27%)	Risk adjusted capitation (75%)	Risk Equalisation Fund
	Hospital output (25%)	District Health Information Systems
Basic Share (16%)	Population per province	Stats SA: Mid Year Estimates
Institutional (5%)	Independent of data	
Poverty (3%)	Income	IES Survey
	Basic component share	Stats SA: Mid Year
Economic activity (1%)	Gross geographic product	Stats SA: GDP-R

# Shares by province: 2011 MTEF

## Distributing the equitable shares by province, 2011 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	48%	27%	16%	3%	1%	5%	100%
Eastern Cape	16.7%	14.1%	13.5%	16.7%	7.5%	11.1%	15.1%
Free State	5.6%	5.9%	5.7%	5.9%	5.2%	11.1%	6.0%
Gauteng	15.5%	20.2%	22.4%	15.7%	33.1%	11.1%	17.8%
Kw aZulu-Natal	23.1%	22.4%	21.3%	22.9%	16.4%	11.1%	21.9%
Limpopo	13.9%	10.6%	10.9%	14.3%	7.2%	11.1%	12.3%
Mpumalanga	8.4%	7.0%	7.2%	8.6%	7.6%	11.1%	8.0%
Northern Cape	2.2%	2.3%	2.2%	2.5%	2.3%	11.1%	2.7%
North West	6.3%	7.0%	6.4%	7.5%	6.5%	11.1%	6.8%
Western Cape	8.3%	10.5%	10.4%	6.0%	14.3%	11.1%	9.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Provincial shares: phase-in

**Table W1.7 Implementation of the equitable share weights, 2011/12 – 2013/14**

	2010/11 Weighted shares	2011/12 2011 MTEF weighted shares	2012/13 3-year phasing	2013/14 3-year phasing
<b>Percentage</b>				
Eastern Cape	15.5%	15.3%	15.2%	15.1%
Free State	6.1%	6.1%	6.0%	6.0%
Gauteng	17.3%	17.5%	17.6%	17.8%
KwaZulu-Natal	21.7%	21.8%	21.9%	21.9%
Limpopo	12.8%	12.7%	12.5%	12.3%
Mpumalanga	8.2%	8.1%	8.0%	8.0%
Northern Cape	2.7%	2.7%	2.7%	2.7%
North West	6.6%	6.7%	6.7%	6.8%
Western Cape	9.1%	9.2%	9.3%	9.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Local Government framework for 2011 MTEF

# Local Government spending plans

## ***Equitable share:***

- R168 million, R339 million and R678 million are set aside over the MTEF for sustainable provision of free basic services

## ***Conditional grants:***

### *Direct transfers*

- R396 million, R662 million and R1 billion for the new Urban Settlements Development Grant
- R378 million, R875 million and R1.2 billion for Public Transport Infrastructure and Systems Grant
- R24 million, R26 million and R27 million for assessing conditions and usage of rural roads
- R470 million, R330 million and R350 million for disasters, currently unallocated to municipalities
- R450 million for drought relief for Nelson Mandela Bay municipality

### *Indirect transfers*

- R 100 million, R384 million and R468 million for Regional Bulk Infrastructure Grant

# Overview of 2011 MTEF

- **Focus in this MTEF is on reprioritising within government spending**
- **Additions to LG fiscal framework build on substantial increases last year, but are constrained by fiscal position of the country means than in the past. For LG fiscal framework this means:**
  - Small additions to LGES, but adjustments to the formula will make it more equitable
  - MIG (Cities) replaced with a new grant to metros to develop sustainable human settlements
  - Additional funds for urban transport infrastructure
  - Additional funding and refocusing of rural transport grant
  - EDSM grant scheduled to end 2011/12
  - Funding for underspending programmes reduced (EPWP incentive, NDPG & Rural Households Infrastructure)

# Revisions to LG fiscal framework

**Table W1.16 Revisions to direct and indirect transfers to local government, 2011/12 – 2013/14**

	2011/12	2012/13	2013/14	2011 MTEF Total revisions
<b>R million</b>				
<b>Technical adjustments</b>	<b>1,463</b>	<b>953</b>	<b>1,050</b>	<b>3,465</b>
<b>Direct transfers</b>	<b>1,552</b>	<b>1,453</b>	<b>1,566</b>	<b>4,572</b>
Municipal infrastructure grant	-493	-600	-633	-1,725
Urban settlements development grant	2,739	2,939	3,101	8,778
Neighbourhood development partnership grant	-440	-382	-447	-1,270
Municipal systems improvement grant	-5	-6	-6	-17
Expanded public works programme incentive grant to provinces for the infrastructure sector	-428	-498	-448	-1,374
Water services operating subsidy grant	181	–	–	181
<b>Indirect transfers</b>	<b>-90</b>	<b>-500</b>	<b>-517</b>	<b>-1,107</b>
Rural households infrastructure grant	-119	-271	-274	-663
Water services operating subsidy grant	100	–	–	100
Regional bulk infrastructure grant	-71	-230	-243	-544
<b>Additions to baselines</b>	<b>2,037</b>	<b>2,691</b>	<b>3,843</b>	<b>8,571</b>
<b>Direct transfers</b>	<b>1,937</b>	<b>2,307</b>	<b>3,375</b>	<b>7,619</b>
Equitable share	168	339	678	1,185
Urban settlements development grant	396	662	1,008	2,067
Public transport infrastructure and systems grant	378	875	1,212	2,465
Rural transport services and infrastructure grant	24	26	27	77
Municipal drought relief grant	450	–	–	450
Municipal disaster grant	470	330	350	1,150
Financial management grant	50	75	100	225
<b>Indirect transfers</b>	<b>100</b>	<b>384</b>	<b>468</b>	<b>952</b>
Regional bulk infrastructure grant	100	384	468	952



# Transfers to local government

**Table W1.17 Transfers to local government, 2007/08 – 2013/14**

R million	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Outcome			Revised estimate	Medium-term estimates		
<b>Direct transfers</b>	<b>38,483</b>	<b>45,487</b>	<b>51,538</b>	<b>61,152</b>	<b>70,171</b>	<b>77,029</b>	<b>82,317</b>
Equitable share	20,676	25,560	23,845	30,559	34,108	37,573	39,960
General fuel levy sharing with metros	–	–	6,800	7,542	8,573	9,040	9,613
Conditional grants	17,807	19,927	20,893	23,052	27,490	30,416	32,743
Infrastructure	16,290	18,562	18,812	20,972	25,596	28,642	30,774
Capacity building and other	1,517	1,365	2,081	2,080	1,894	1,774	1,969
<b>Indirect transfers</b>	<b>1,884</b>	<b>2,307</b>	<b>2,997</b>	<b>3,095</b>	<b>3,992</b>	<b>4,445</b>	<b>4,734</b>
Infrastructure	1,334	1,928	2,754	2,947	3,892	4,445	4,734
Capacity building and other	550	379	243	148	100	–	–
<b>Total</b>	<b>40,367</b>	<b>47,794</b>	<b>54,535</b>	<b>64,247</b>	<b>74,164</b>	<b>81,474</b>	<b>87,051</b>

# Municipal infrastructure grants

**Table W1.20 Infrastructure transfers to local government, 2007/08 – 2013/14**

R million	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Outcome			Revised estimate	Medium-term estimates		
<b>Direct transfers</b>	<b>16,290</b>	<b>18,562</b>	<b>18,812</b>	<b>20,972</b>	<b>25,596</b>	<b>28,642</b>	<b>30,774</b>
Municipal infrastructure grant	6,967	6,968	8,788	9,515	11,444	13,914	14,679
Urban settlements development grant	2,950	3,590	4,285	4,855	6,267	7,410	8,127
National electrification programme	462	589	914	1,020	1,097	1,151	1,215
Public transport infrastructure and systems grant	1,174	2,920	2,418	3,699	4,803	5,000	5,564
Neighbourhood development partnership grant	41	182	506	1,030	750	800	800
2010 FIFA World Cup stadiums development grant	4,605	4,295	1,661	302	–	–	–
Rural transport services and infrastructure grant	–	9	10	10	35	37	39
Electricity demand side management	–	–	175	220	280	–	–
Municipal disaster grant	–	–	–	–	470	330	350
Municipal drought relief grant	90	9	54	320	450	–	–
<b>Indirect transfers</b>	<b>1,334</b>	<b>1,928</b>	<b>2,754</b>	<b>2,947</b>	<b>3,892</b>	<b>4,445</b>	<b>4,734</b>
National electrification programme	973	1,148	1,478	1,720	1,738	1,882	1,986
Neighbourhood development partnership grant	61	54	90	125	100	80	55
Regional bulk infrastructure grant	300	450	612	893	1,704	2,003	2,176
Backlogs in water and sanitation at clinics and schools	–	186	350	–	–	–	–
Backlogs in the electrification of clinics and schools	–	90	149	–	–	–	–
Electricity demand-side management	–	–	75	109	119	–	–
Rural households infrastructure grant	–	–	–	100	232	480	517
<b>Total</b>	<b>17,624</b>	<b>20,490</b>	<b>21,566</b>	<b>23,919</b>	<b>29,488</b>	<b>33,087</b>	<b>35,508</b>

# Municipal capacity building and other grants

**Table W1.22 Capacity building and other current transfers to local government,  
2007/08 – 2013/14**

	2007/08	2008/09	2009/10	2010/11 Revised estimate	2011/12	2012/13	2013/14
<b>R million</b>							
<b>Direct transfers</b>	<b>1,517</b>	<b>1,365</b>	<b>2,081</b>	<b>2,080</b>	<b>1,894</b>	<b>1,774</b>	<b>1,969</b>
Municipal systems improvement grant	200	200	200	212	219	230	243
Restructuring grant	530	–	–	–	–	–	–
Financial management grant	145	180	300	365	435	479	526
2010 FIFA World Cup host city operating grant	–	–	508	210	–	–	–
Water services operating subsidy grant	642	985	871	670	561	399	421
Expanded public works programme municipal incentive grant	–	–	202	623	680	666	779
<b>Indirect transfers</b>	<b>550</b>	<b>379</b>	<b>243</b>	<b>148</b>	<b>100</b>	<b>–</b>	<b>–</b>
Financial management grant: DBSA	53	50	–	–	–	–	–
Water services operating subsidy grant	497	329	243	148	100	–	–
<b>Total</b>	<b>2,067</b>	<b>1,744</b>	<b>2,324</b>	<b>2,228</b>	<b>1,994</b>	<b>1,774</b>	<b>1,969</b>

# Changes to Conditional Grants

- **Urban Settlements Development Grant**
  - New grant created through reconfiguration of MIG (Cities); MIG allocations for 2 new Metros; and a top-slice of 15% of provincial Human Settlements Development Grant
  - Strategic goals :
    - The USDG seeks to supplement capital budgets of large cities, ensure integrated national, provincial and municipal planning, effective leveraging of municipal resources towards supporting the national outcome in the development of sustainable human settlements and improved quality of household life
    - Subsidise capital costs of providing basic services to poor households
    - Improving efficiency of maximising developmental outcomes and a coordinated approach to built environment management
  - Accreditation to level 3 will mean full amount for Human Settlements Development Grant will be transferred directly to cities through the USDG

# Changes to Conditional Grants - Continued

- **Rural Transport Services and Infrastructure Grant**
  - Allocation has been increased
  - New grant purpose is to assist rural district municipalities to set up rural road asset management system, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa (RISFSA)
  - All district municipalities authorised for water and sanitation will receive the grant
  - This will be the first step towards improving the efficiency and effectiveness of funds spent on transport infrastructure in rural areas
- **Electricity Demand Side Management Grant**
  - 2011/12 is the last year that funds for this grant have been allocated
  - A review of the performance of the grant will be conducted during 2011 that will inform any decision on whether to extend the life of the grant
  - The schedule 6 (direct) grant will also allow municipalities to provide solar geysers for poor households (this is already the focus of the schedule 7 grant managed by Eskom)

# Changes to the Equitable Share

## Three components changed:

- Basic Services
  - Allocation for un-serviced poor households increased from 33% to 45% of that for serviced poor households
- Institutional Component
  - No more escalation with population (favoured larger munis)
  - Allocation based on council size is adjusted by proportion of poor households (poorest municipality gets 100%)
  - Base allocation retained (assists smallest munis)
- Revenue Raising Capacity Correction
  - Rate of “tax” reduced for all municipalities (reduces value of RRC by 25%)
  - Stepped “Tax” changed to smooth
  - RRC on *RSC Levy Replacement* dropped (value of RSC Levy Replacement Grant adjusted to fully compensate for this impact)

*Formula also updated to reflect changes to municipal boundaries*

# Additional information

# Government's main new spending plans over the MTEF by function

- **Job Creation**
  - R10 billion for job creation, small enterprise development and youth employment
  - R2.2 billion for creating 41 131 full-time equivalent jobs under Expanded Public Works Programme
- **Education and Skills Development**
  - R9.5 billion is provided for Further Education and Training college expansion and bursaries
  - R8.3 billion for upgrading school infrastructure and facilities as well as the provision of improved learner support materials
  - R954 million for Funza Lushaka bursaries for teachers and for postgraduate students in the natural sciences
  - R300 million for starting to establish universities in Mpumalanga and the Northern Cape
- **Health Services**
  - R5.5 billion to improve primary health care and hospital revatilisaton
  - R2.5 billion to expand provision of antiretroviral drugs as well as combating HIV and Aids

# Government's main new spending plans over the MTEF by function (2)

- **Housing and Community Amenities**
  - R4.9 billion to cater towards eliminating informal housing and for municipal services
  - R2.5 billion to support water infrastructure and services as well as to respond to acid mine drainage
- **Economic Affairs**
  - R2.8 billion for rural development and emerging farmer support
  - R10.4 billion for public transport, roads and rail infrastructure
- **Social Protection**
  - R8.9 billion for social security transfers such as social grants, maternity and unemployment benefits
  - Old age and disability grants are increased by R80 per month to R1 140 and the child support grant is raised by R20 per month over the next year
  - R870 million for the implementation of a new social grants application process that will reduce waiting times, modernise record management and reduce fraud

# Government's main new spending plans over the MTEF by function (3)

- **Public Order and Safety**
  - R1.8 billion for additional police personnel and training
- **General Public Services**
  - R1.8 billion as unallocated provincial and municipal conditional grants to deal with immediate disaster needs
  - R600 million earmarked for post-disaster recovery and reconstruction, following the floods in early 2011
  - R254 million for prevention and mitigation of disaster risks in the country
- **Sports, Arts and Culture**
  - R315 million to National Film and Video Foundation for creating 4 200 jobs by training scriptwriters, script editors, producers and other crew