

2012 Division of Revenue Bill

Select Committees on Appropriations

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Outline

- Legal basis of the Division of Revenue Bill (DoRB)
- Responses to the recommendations by the Standing and Select Committees on Appropriations
- Layout of the 2012 DoRB and Act
- 2012 Division of Revenue Bill
 - Changes to 2011 Division of Revenue Act
- Fiscal framework
- Provincial and local government allocations
- FFC proposals for 2012 MTEF and government's response
- Recommendations on 2012 DoRB by the Standing Committee on Appropriations

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 be tabled that explains how recommendations by Parliamentary Committees on Appropriations regarding proposed division of revenue and conditional grant allocations to provinces and local government as contained in MTBPS are given effect to (or reasons why not)
- IGFR Act requires that
 - FFC submit 10 months before start of financial year recommendations to Minister on division of revenue for coming budget
 - Government to present Government's response at tabling of Budget

Responses to Recommendations by Standing and Select Committees on Appropriations as they relate to 2012 Division of Revenue and 2011 MTBPS

Recommendations of Committees on 2011 DoRB having implications for 2011 or 2012 DoR

Committee Recommendation	Response
<ul style="list-style-type: none"> • Municipal sport facilities <ul style="list-style-type: none"> - 15% of Municipal Infrastructure Grant (MIG) be ring-fenced for this purpose or a new conditional grant be created 	<ul style="list-style-type: none"> • P component of MIG (15%) was ring-fenced in conditional grant framework for 2011/12 for municipal sport facilities (Gazette) • This practice be continued in 2012/13 • Possibility of introducing a separate grant to be explored by SRSA during 2012 for possible implementation in 2013 Budget
<ul style="list-style-type: none"> • Department of Cooperative Governance should locate own funds for new municipality NW397 	<ul style="list-style-type: none"> • Funds allocated to Municipality NW397 through 2011 Division of Revenue Amendment Act
<ul style="list-style-type: none"> • National Treasury should provide Committee with detailed report of all grants being phased out 	<ul style="list-style-type: none"> • Report on Forensic Pathology Grant submitted to Parliament (being phased into provincial equitable share)
<ul style="list-style-type: none"> • Parliament should be consulted on changes to conditional grant frameworks 	<ul style="list-style-type: none"> • Section 15 (section 14 in 2011 Act) has been amended to provide Parliament with 2 weeks to comment on any amendments to a conditional grant framework

Responses to Standing Committee on Appropriations on 2011 MTBPS – 1 of 2

Committee Recommendation	Response
<ul style="list-style-type: none"> Dept. of Human Settlements to support the capacity of underperforming provinces and municipalities 	<ul style="list-style-type: none"> Dept. has various programmes in place to build capacity and provide project support to provinces and municipalities to unblock blocked projects, priority project support and informal settlement upgrading
<ul style="list-style-type: none"> NT and Labour Unions take stringent measures to manage unanticipated and unforeseen increases in compensation 	<ul style="list-style-type: none"> The Minister notes and supports the recommendation
<ul style="list-style-type: none"> National Treasury and Dept. of Health to Prioritise Health Infrastructure 	<ul style="list-style-type: none"> Two new grants introduced from 2012/13: <ul style="list-style-type: none"> Nursing Colleges and Schools Grant to fund upgrading and rehabilitation of nursing colleges and schools National Health Insurance (NHI) Grant to pilot innovations as part of phased implementation of NHI Dept. of Health will complete a health facilities audit in early 2012 and is working with CSIR and DBSA on a targeted infrastructure response for sector

Responses to Standing Committee on Appropriations on 2011 MTBPS – 2 of 2

Committee Recommendation	Response
<ul style="list-style-type: none"> Dept. of Agriculture Forestry and Fishing (DAFF) to ensure grant expenditure to avoid rollovers 	<ul style="list-style-type: none"> DAFF's National Assessment Panel (NAP) convenes in Dec where each province's business plan is interrogated by specialists - notable improvements in last 2 years. During 2012/13 DAFF will finalise a framework for a standard operating procedure for CASP that will require greater involvement of private sector and non-profit organisations in farmer support
<ul style="list-style-type: none"> Dept. of Basic Education (DBE) to place measures to ensure increase in education spending produces quality 	<ul style="list-style-type: none"> Annual National Assessments (ANAs) performed on Grade 3 and 6s indicates specific problem areas in each school and interventions can now be tailored. Additional funds (R235m over 2012 MTEF) are allocated for extension thereof to Grade 9 and to strengthen the existing ANAs at grades 1-6
<ul style="list-style-type: none"> DBE to ensure no under expenditure from Schools Infrastructure Backlogs grant 	<ul style="list-style-type: none"> To achieve intended impact a comprehensive rollout programme that is credible and supported by relevant expertise was developed by DBE. The full allocation for the grant is committed to projects

Responses to Select Committee on Appropriations on 2011 MTBPS and 2011 DoRAB

Committee Recommendation	Response
<ul style="list-style-type: none"> All government departments should resolve capacity issues in provinces and municipalities 	<ul style="list-style-type: none"> Various initiative in place, incl. NT, to strengthen capacity in provinces and municipalities <ul style="list-style-type: none"> Infrastructure Delivery Improvement Programme (IDIP) – education and health MFMA implementation, cash and revenue and budget and reporting formats
<ul style="list-style-type: none"> NT should provide proper mechanisms for National Health Insurance 	<ul style="list-style-type: none"> NHI conditional grant starts in 2012/13 - will pilot a range of interventions in district health authorities and central hospitals, incl. testing and refining financing mechanisms
<ul style="list-style-type: none"> Government be mindful of rising wage bill relative to other priorities and consider entering into multi-year wage agreements with organised labour 	<ul style="list-style-type: none"> Minister notes and supports the recommendation
<ul style="list-style-type: none"> Dept. of Public Works (DPW) should provide technical assistance to smaller municipalities 	<ul style="list-style-type: none"> DPW assists smaller municipalities with technical design of projects, implementation and improved reporting

2012 Division of Revenue Bill

Significant changes to the 2011 Bill

- A large part of the Bill remains the same annually – revisions are mainly to take into account specific policy adjustments. 3 Significant changes:
- EPWP grants
 - Grants reconfigured due to slow uptake. In-year calculations fall away - 2011/12 incentive payment to provinces and municipalities calculated on number of jobs created in previous year (“Schedule 8” falls away)
- Consultation with Parliament on changes to conditional grant frameworks
 - Select Committee on Appropriations recommended that 2012 DOR Bill allows Parliament to be consulted on any amendments to conditional grant frameworks - a new sub-section added to **s15** to provide Parliament with 2 weeks to comment on changes prior to publishing in a government gazette
- Provisions with respect to infrastructure conditional grants
 - To include specific anti-corruption conditions, a new **section 13** is added which places additional responsibilities on HODs of provincial depts with infrastructure CGs (incl. reporting through Project and Asset Segment in Standard Chart of Accounts; maintaining up-to-date databases, submission of approved organograms, and compliance with best practice standards set)

Technical changes to Bill

- Amendments to existing clauses to improve clarity on the Bill
- Amendments to clauses to strengthen oversight mechanisms (mainly reporting requirements)
- Other changes
 - All references to EPWP grants are removed and s25(8) clarifies that transfers from old EPWP grants are subject to old conditions
- Sections deleted from the 2011 Division of Revenue Bill
 - All Gautrain related provisions deleted due to phasing out of grant
 - Section 25 dealing with transitional arrangements post the 2011 municipal elections deleted
 - Other clauses that are no longer applicable due to changes in EPWP grants

Division of Nationally Raised Revenue for 2012 MTEF

Additions to Baselines

Changes over baseline¹, 2012/13 – 2014/15

R million	2012/13	2013/14	2014/15
National departments	4 229	7 742	19 244
Provinces	4 038	6 840	8 546
Local government	312	1 541	3 451
Allocated expenditure	8 579	16 123	31 241

1. Excludes shifting of savings towards priorities over the MTEF

National (54.2%)

- ICS
- Manufacturing Competiveness Enhancement Programme
- Job creation
- Improved infrastructure (border post, special economic zones, signalling and depot, university)

Provincial (36%)

- Equitable Share: ICS, Grade R and no-fee schools, subsidies to ECD centres
- Conditional Grants: NHI pilots, hospitals, HIV and Aids treatment & prevention, ICS in health and FET colleges, infrastructure and housing

Local Govt (9.8%)

- Equitable share: Increased institutional support for small and poor municipalities and funding for increased bulk costs for basic services
- Conditional Grants: Accelerated upgrading of informal settlements, electrification, energy efficiency projects, regional bulk (water)



Division of Revenue

Division of nationally raised revenue, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
R million							
Division of available funds							
National departments	289 236	345 366	355 189	383 747	412 368	446 220	478 828
Provinces	246 836	293 164	322 822	362 626	384 487	411 092	437 004
Equitable share	201 796	236 891	265 139	291 736	309 057	328 921	349 351
Conditional grants	45 040	56 273	57 682	70 891	75 430	82 171	87 653
Local government	45 487	51 537	60 904	68 180	77 342	83 858	90 707
Equitable share ¹	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General fuel levy sharing	–	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
Total	581 560	690 068	738 914	814 554	874 197	941 170	1 006 539
Percentage shares							
National departments	49.7%	50.0%	48.1%	47.1%	47.2%	47.4%	47.6%
Provinces	42.4%	42.5%	43.7%	44.5%	44.0%	43.7%	43.4%
Local government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%

Provincial Framework for 2012 MTEF

Provincial fiscal framework

- R19.4b added to provincial fiscal framework over 2012 MTEF
- Equitable share increased by R14.9b (R3.3bn in 2012/13. R5.3b in 2013/14 and R6.3b)
 - R10.5b for higher than anticipated wage agreements
 - R3b for education:
 - Equalisation of subsidies paid to no fee schools in Quintiles 1 to 3
 - Expand Grade R and equalise expenditure per Grade R learner with other grades
 - R1.4 billion for social development:
 - Expansion of Early Childhood Development and equalisation of subsidies paid per child (R15)
 - Victim empowerment programmes

Total transfers to provinces for 2012/13

Total transfers to provinces, 2012/13

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	46 940	9 683	56 624
Free State	18 531	5 520	24 051
Gauteng	54 545	15 623	70 168
Kw aZulu-Natal	67 803	14 427	82 230
Limpopo	38 721	7 546	46 267
Mpumalanga	24 874	5 621	30 495
Northern Cape	8 255	3 082	11 337
North West	20 615	4 939	25 554
Western Cape	28 772	8 809	37 581
Unallocated	—	180	180
Total	309 057	75 430	384 487

Changes to provincial equitable share in 2012 MTEF

- Structure of the PES formula remains unchanged except for slight refinements to health component (27%) to make it more transparent
 - Health Component changed in 2011 Budget after review of provincial equitable share formula
 - Component has 3 sub-components (risk adjusted index – 75%, hospital output – 20% and PHC visits – 5%)
- Education component be reviewed as soon as Dept of Basic Education has improved school enrolment data and 2011 Census data is received
- Formula updated with latest available data. Annual data updates:
 - Education component – 48% (2011 School Realities Survey)
 - Poverty component – 3% (2011 mid-year estimates and 2005 Income and Expenditure Survey (IES))
 - Basic component – 16% (2011 mid-year estimates)
 - Economic activity component – 1% (2009 GDP- by region)
 - Institutional component – 5% (independent of data – shared equally between provinces)

Revisions to the Provincial Equitable Share

Policy and Inflationary Additions to the Provincial Equitable Share

(R'000)	Medium-term expenditure framework			Total Revisions
	2012/13	2013/14	2014/15	
Provincial Equitable Share Baseline (2011 MTEF)	305 725 449	323 604 408	343 020 672	972 350 529
Additions to Baseline	3 331 933	5 316 285	6 330 327	14 978 545
Improved Conditions of Service	3 331 933	3 512 660	3 689 589	10 534 182
Policy Priorities funded through the Equitable Share	-	1 803 625	2 640 738	4 444 363
Education	-	1 116 645	1 899 458	3 016 103
Expansion of no-fee schools	-	450 358	839 326	1 289 684
Universalisation of Grade R	-	666 287	1 060 132	1 726 419
Social Development	-	686 980	741 280	1 428 260
Child and Youth Care: Access to Early Childhood Development	-	650 000	700 000	1 350 000
Victim Empowerment Programme	-	36 980	41 280	78 260
Revised Provincial Equitable Share for 2012 MTEF	309 057 382	328 920 693	349 350 999	987 329 074

Equitable shares by province, 2012 MTEF

Distributing the equitable shares by province, 2012 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	48%	27%	16%	3%	1%	5%	100%
Eastern Cape	16.3%	14.2%	13.5%	16.7%	7.6%	11.1%	14.9%
Free State	5.6%	5.5%	5.5%	5.7%	5.5%	11.1%	5.8%
Gauteng	15.7%	20.5%	22.4%	15.7%	33.9%	11.1%	18.0%
Kw aZulu-Natal	23.2%	23.0%	21.4%	23.0%	16.1%	11.1%	22.2%
Limpopo	13.9%	10.7%	11.0%	14.4%	7.0%	11.1%	12.4%
Mpumalanga	8.4%	6.8%	7.2%	8.6%	7.1%	11.1%	7.9%
Northern Cape	2.2%	2.2%	2.2%	2.4%	2.3%	11.1%	2.6%
North West	6.3%	6.5%	6.4%	7.5%	6.5%	11.1%	6.6%
Western Cape	8.4%	10.6%	10.5%	6.0%	14.0%	11.1%	9.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Phase-in of provincial weights - 2012 MTEF

Implementation of the equitable share weights, 2012/13 – 2014/15

	2011/12 Weighted shares	2012/13 2012 MTEF weighted shares	2013/14 3-year phasing	2014/15 3-year phasing
Eastern Cape	15.3%	15.2%	15.1%	14.9%
Free State	6.1%	6.0%	5.9%	5.8%
Gauteng	17.5%	17.6%	17.8%	18.0%
Kw aZulu-Natal	21.8%	21.9%	22.1%	22.2%
Limpopo	12.7%	12.6%	12.5%	12.4%
Mpumalanga	8.1%	8.1%	8.0%	7.9%
Northern Cape	2.7%	2.7%	2.7%	2.6%
North West	6.7%	6.7%	6.7%	6.6%
Western Cape	9.2%	9.3%	9.3%	9.4%
Total	100.0%	100.0%	100.0%	100.0%

Changes to provincial conditional grants

- Changes to provincial conditional grants:
 - R 7.8b added for policy priorities (after taking into account technical revisions and reprioritisation)
 - R3.4b in savings made – allocated towards government priorities
 - Net change to provincial conditional grants is R4.4b
- New s13 added in DoR Bill for provincial infrastructure grants:
 - HOD of receiving provincial department responsible for ensuring:
 - Submission of signed off organisational structures and details of qualifications, experience etc of existing people
 - Contract database maintained, compliant with Register of Projects and i-Tender system
 - Infrastructure expenditure reported through Project and Asset Segment in the standard Chart of Accounts
 - Compliance with CIDB best practices
- EPWP for infrastructure and related changed from in-year incentive to rewarding job creation measured in the previous year
- allocations known up front

New grants introduced in 2012/13 FY

- National Health Insurance (NHI)
 - Grant will fund NHI pilots and test feasibility of policy proposals for the NHI
 - primary health care as a platform on which the NHI will be implemented in ten district health authorities, 4 different interventions, one per DHA
 - Revenue collection and management in 7 central hospitals
 - R1b over the MTEF
- Nursing Colleges and Schools grant
 - Grant will fund the refurbishment and upgrading of nursing colleges.
 - The national Department of Health will play a more active role in planning, packaging and procurement of projects funded through the grant
 - R450m over the MTEF (from baseline of Health Infrastructure Grant)

Additions to Provincial Conditional Grants

- Funds added for repair of damage caused to infrastructure by floods in January and February 2011 added over 2012 MTEF
 - Comprehensive Agriculture Support Programme – R995m
 - Education Infrastructure Grant – R278m
 - Human Settlements Development Grant – R594m
 - Provincial Roads Maintenance Grant – R1.2b
- Health
 - R1.1b added to Comprehensive HIV and Aids Programme Grant to expand provision of treatment and prevention programmes to respond to higher than anticipated demand and lowering of CD4 Count threshold
 - R718m added to Hospital Revitalisation Grant for large infrastructure projects that lend themselves to implementation through public private partnerships
 - R900m added to National Tertiary Services Grant to provide for carry through effects of the 2011 Wage agreements
- R166m added to FET Colleges grant to provide for carry through effects of 2011 Wage agreements
- R1.1b added to Human Settlements Development Grant for upgrading informal settlements

Revisions to conditional grant baselines: 2012 MTEF (excluding savings)

Revisions to provincial conditional grant baseline allocations, 2012/13 – 2014/15¹

R million	2012/13	2013/14	2014/15	2012 MTEF
Technical revisions	-57	-68	-73	-198
Health	—	—	—	—
Health infrastructure	-100	-150	-200	-450
<i>Revised to:</i>				
Nursing colleges and schools	100	150	200	450
Public Works	-57	-68	-73	-198
EPWP integrated grant for provinces	-32	-40	-42	-115
Social sector EPWP incentive grant for province	-24	-28	-30	-83
Additions to baseline	1 805	2 530	3 742	8 076
Agriculture, Forestry and Fisheries	398	299	298	995
Comprehensive agricultural support programme	398	299	298	995
Basic Education	119	159	—	278
Education infrastructure	119	159	—	278
Health	450	950	2 318	3 718
Comprehensive HIV and Aids	—	—	1 100	1 100
Hospital revitalisation	50	300	368	718
National health insurance	150	350	500	1 000
National tertiary services	250	300	350	900
Higher Education and Training	52	55	58	166
Further education and training colleges	52	55	58	166
Human Settlements	295	699	700	1 694
Human settlements development	295	699	700	1 694
Transport	490	368	367	1 225
Provincial roads maintenance	490	368	367	1 225
Net technical additions to baseline	1 748	2 461	3 669	7 878
Less savings effected on conditional grants	-1 042	-937	-1 454	-3 433
Net additions to baselines	706	1 524	2 215	4 445

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

Provincial conditional grants: 2012 MTEF - 1 of 2

Conditional grants to provinces, 2011/12 – 2014/15

R million	2011/12 Revised estimate	2012/13	2013/14	2014/15	Total for MTEF
Agriculture, Forestry and Fisheries	1 652	2 066	2 147	2 194	6 407
Comprehensive agricultural support programme ¹	1 189	1 535	1 600	1 665	4 800
Ilima/Letsema projects	405	416	438	461	1 315
Land care programme: Poverty relief and infrastructure development	58	116	109	68	292
Arts and Culture	570	565	598	632	1 794
Community library services	570	565	598	632	1 794
Basic Education	10 737	11 247	11 923	12 321	35 491
Dinaledi schools	70	100	105	111	316
Education infrastructure ¹	5 678	5 822	6 198	6 270	18 290
HIV and Aids (life skills education)	199	209	220	233	661
National school nutrition programme	4 579	4 906	5 179	5 474	15 559
Technical secondary schools recapitalisation	211	209	221	233	664
Cooperative Governance and Traditional Affairs	–	180	190	201	571
Provincial disaster	–	180	190	201	571
Health	23 877	25 692	28 750	31 794	86 235
Comprehensive HIV and Aids	7 398	8 763	10 534	12 211	31 508
Forensic pathology services	590	–	–	–	–
Health infrastructure	1 690	1 621	1 721	1 836	5 179
Health professions training and development	1 977	2 076	2 190	2 322	6 588
Hospital revitalisation	4 172	4 104	4 184	4 556	12 844
National health insurance	–	150	350	500	1 000
National tertiary services	8 049	8 878	9 620	10 168	28 667
Nursing colleges and schools	–	100	150	200	450



Provincial conditional grants: 2012 MTEF - 2 of 2

R million	2011/12 Revised estimate	2012/13	2013/14	2014/15	Total for MTEF
Human Settlements	15 122	15 726	16 984	17 808	50 518
Human settlements development ¹	15 122	15 726	16 984	17 808	50 518
National Treasury	1 090	—	—	—	—
Infrastructure grant to provinces	1 090	—	—	—	—
Public Works	2 161	2 429	2 671	2 824	7 924
Devolution of property rate funds	1 803	1 919	2 052	2 168	6 138
Expanded public works programme integrated grant for provinces	157	293	362	383	1 038
Social sector expanded public works programme incentive grant for provinces	200	217	258	273	748
Sport and Recreation South Africa	452	470	498	526	1 493
Mass participation and sport development	452	470	498	526	1 493
Transport	10 856	12 299	13 093	13 736	39 128
Gautrain rapid rail link	5	—	—	—	—
Provincial roads maintenance ¹	6 697	7 982	8 540	8 953	25 475
Public transport operations	4 153	4 317	4 553	4 783	13 652
Total conditional grants	70 891	75 430	82 171	87 653	245 255
Indirect transfers	700	2 315	5 189	5 500	13 004
School infrastructure backlogs	700	2 315	5 189	5 500	13 004

1. Includes funding for disasters

Local Government Fiscal Framework for 2012 MTEF

Local government (LG) fiscal framework

- R7.7b added to LG fiscal framework over 2012 MTEF
 - R2.2b added to LG equitable share
 - R960m for increased cost of basic services in 2013/14 and 2014/15 (2012/13 catered for in 2010 Budget)
 - R1.2b to enable grade 1-3 municipalities to pay a stipend to ward committee members and increase support from national fiscus for councillors' salaries
 - R3.1b added to direct LG conditional grants and R2.4b added to indirect transfers to LG
 - R2.9b added to Urban Settlements Development Grant to accelerate upgrading of informal settlements
 - R300m added to Integrated National Electrification (municipal) Grant for public lighting as part of informal settlement upgrading
 - R600m to continue to Energy Efficiency Demand Side Management Grant
 - R3.2b added to Regional Bulk Infrastructure Grant to provide for bulk needed to enable more households connections to water and sanitation systems
- Savings of R279m over 2012 MTEF on LG conditional grants (no savings on LG equitable share)

Total transfers to LG – 2012 MTEF

Transfers to local government, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimat	Medium-term estimates		
R million							
Direct transfers	45 487	51 537	60 904	68 180	77 342	83 858	90 707
Equitable share and related	25 560	23 847	30 541	32 876	37 873	40 582	43 639
Equitable share formula ¹	16 300	20 283	26 761	28 991	33 483	35 879	38 538
RSC levy replacement ²	9 045	3 306	3 492	3 544	3 733	3 930	4 146
Support for councillor remuneration and ward	215	258	288	340	658	772	955
General fuel levy sharing with metros	–	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 891	22 821	26 732	30 429	33 663	36 878
Infrastructure	18 562	18 759	20 870	24 846	28 029	31 222	34 301
Capacity building and other	1 366	2 132	1 951	1 886	2 400	2 440	2 577
Indirect transfers	2 418	3 088	2 996	4 029	5 088	5 661	5 836
Infrastructure	2 038	2 763	2 682	3 781	4 956	5 348	5 509
Capacity building and other	380	326	314	247	133	313	328
Total	47 906	54 626	63 899	72 209	82 430	89 519	96 543



Changes to LG equitable share in 2012 MTEF

- LG Equitable Share Formula structure and data remain unchanged
 - R960m added for basic services cost increases in 2013/4 and 2014/15
- Allocations for councillor support for grade 1-3 municipalities (calculated separate to LG Equitable Share formula):
 - Subsidy levels for councillor support increased (phased increase over 2012 MTEF)
 - Added provision for R500 per month for each of 10 ward committees members

Subsidy levels provided for councillor remuneration

Municipal grade	2012/13	2013/14	2014/15
1	80.0%	90.0%	90.0%
2	55.0%	70.0%	80.0%
3	50.0%	55.0%	70.0%

Changes to conditional grants introduced in 2012/13

- A new grant, Infrastructure Skills Development Grant (ISDG), aims to increase pool of qualified engineers and scientists working in municipalities
 - Interns with technical skills placed in well-capacitated municipalities and water boards for 2 years to gain skills and experience whereafter they will be transferred to rural municipalities with poor capacity to complete their internship
 - This will provide an opportunity for rural municipalities to hire skilled personnel when the internship is complete
 - The grant will be administered by the National Treasury
- A new model for EPWP grant
 - More certainty for municipalities to plan as former in-year determination of the incentives replaced with an upfront transfer of funds (now Schedule 6)
 - Allocations are based on past performance on the EPWP, potential to create work using baseline allocations, need for employment creation in their area and a bonus for rural municipalities
 - Minimum allocation for participating municipalities is R1 million
 - Additional technical support will be provided to rural municipalities
- Importance of promoting energy efficiency recognised by extending EDSM grant for another 3 years
 - There will no longer be an indirect grant, national Solar Water Heater programme will be implemented by Eskom

Revisions and additions to LG conditional grants

- **Technical revisions over the 2012 MTEF**
 - R281m shifted from Financial Management Grant to new Infrastructure Skills Development Grant (funds for this purpose were added in 2011 Budget)
 - R226m reprioritised out of EPWP grant and R673m out of Neighbourhood Development Partnership Grant
 - R403m reprioritised out of indirect Rural Households Infrastructure Grant (RHIG)
 - From 2014/15 the remaining RHIG baseline (R274m) is shifted to MIG for municipalities to directly implement on-site solutions
 - R167m (direct) and R773m (indirect) is reprioritised in to Water Services Operating Subsidy Grant to enable transfer of staff operating water schemes from national government to municipalities
- Earmarking of 15% (P-component) for municipal sport infrastructure introduced in 2011 Budget retained

Revisions to LG conditional grants (excluding savings)

Revisions to direct and indirect transfers to LG, 2012/13 – 2014/15

	2012/13	2013/14	2014/15	2012 MTEF Total revisions
R million				
Technical adjustments	141	46	-130	57
Direct transfers	-123	-278	-58	-458
Municipal infrastructure grant	—	—	274	274
Neighbourhood development partnership grant	-220	-200	-253	-673
Expanded public works programme incentive grant	-66	-78	-82	-226
Financial management grant	-75	-100	-106	-281
Infrastructure skills development grant	75	100	106	281
Water services operating subsidy grant	163	—	3	167
Indirect transfers	264	323	-72	516
Regional bulk infrastructure grant	132	139	149	420
Rural households infrastructure grant	—	-128	-548	-677
Water services operating subsidy grant	133	313	328	773
Additions to baselines	882	2 498	4 547	7 926
Direct transfers	500	1 891	3 651	6 042
Equitable share	300	621	1 281	2 202
Urban settlements development grant	—	970	1 970	2 940
Integrated national electrification programme	—	100	200	300
Electricity demand side management grant	200	200	200	600
Indirect transfers	382	606	896	1 884
Regional bulk infrastructure grant	382	606	896	1 884

Infrastructure transfers to local government

Infrastructure transfers to local government, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
R million							
Direct transfers	18 562	18 759	20 870	24 846	28 029	31 222	34 301
Municipal infrastructure grant	6 986	8 788	9 704	11 444	13 882	14 643	15 764
Urban settlements development grant	3 572	4 418	4 968	6 267	7 392	9 077	10 546
Integrated national electrification programme	589	900	1 033	1 097	1 151	1 315	1 488
Public transport infrastructure and systems grant	2 920	2 418	3 699	4 803	4 988	5 550	5 871
Neighbourhood development partnership grant	181	508	832	750	578	598	591
2010 FIFA World Cup stadiums development grant	4 295	1 661	302	—	—	—	—
Rural roads asset management grant	9	13	10	35	37	39	41
Municipal drought relief grant	9	54	320	450	—	—	—
Indirect transfers	2 038	2 763	2 682	3 781	4 956	5 348	5 509
Integrated national electrification programme	1 241	1 616	1 720	1 738	1 879	1 983	2 099
Neighbourhood development partnership grant	80	70	50	100	80	55	58
Regional bulk infrastructure grant	441	577	851	1 686	2 517	2 922	3 351
Backlogs in water and sanitation at clinics and schools	186	350	—	—	—	—	—
Backlogs in the electrification of clinics and schools	90	149	—	—	—	—	—
Rural households infrastructure grant	—	—	62	258	480	389	—
Total	20 600	21 522	23 552	28 627	32 984	36 571	39 810

Capacity building & other current transfers to LG

Capacity building and other current transfers to LG, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12 Revised estimat	2012/13	2013/14	2014/15
R million							
Direct transfers	1 366	2 132	1 951	1 886	2 400	2 440	2 577
Municipal systems improvement grant	200	200	212	220	230	243	257
Financial management grant	180	300	365	424	403	425	449
2010 FIFA World Cup host city operating grant	–	508	210	–	–	–	–
Water services operating subsidy grant	986	849	664	542	562	421	450
Expanded public works programme integrated grant for municipalities	–	100	280	420	599	702	744
Infrastructure skills development grant	–	–	–	–	75	100	106
Electricity demand side management grant	–	175	220	280	200	200	200
Municipal disaster grant	–	–	–	–	330	350	371
Indirect transfers	380	326	314	247	133	313	328
Financial management grant: DBSA	50	–	–	–	–	–	–
Electricity demand side management grant	–	75	109	119	–	–	–
Water services operating subsidy grant	330	251	205	128	133	313	328
Total	1 746	2 458	2 264	2 133	2 533	2 753	2 905

Government's Response to Recommendations of Financial and Fiscal Commission on 2012/13 Division of Revenue

FFC Recommendations (divided into 6 chapters)

- Chapter 1: South Africa's transition to a consolidated budget and fiscal guidelines
- Chapter 2: Inclusive growth, development and fiscal policy
- Chapter 3: Analysis of local government revenue and expenditure
- Chapter 4: Sustainable development of South Africa's built environment
- Chapter 5: Environmental sustainability and climate change in the local government sector
- Chapter 6: Budget analysis and exploration of issues to increase performance in basic education and health

Government supports most recommendations, some partially (requires more work) and a few are not supported

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Government supports most recommendations, some partially (requires more work) and a few are not supported

FFC recommendations supported by Government –

1 of 4

- **Chapter 1: SA's transition to a consolidated budget and fiscal guidelines**
 - Govt to continue with a gradual programme of fiscal consolidation and recent Govt proposals on fiscal guidelines in SA be supported, and in short to medium term focus should be on institutional arrangements, design and implementation of fiscal guidelines
 - *Current government fiscal policy will continue to be developed on basis of fiscal guidelines published with 2011 Budget*
- **Chapter 2: Inclusive growth, development and fiscal policy**
 - National, provincial, and LG to further reprioritise expenditures towards attaining Millennium Development Goals (MDGs), mainly MDG 2 (universal education) and 6 (HIV indicators)
 - *2012 Budget takes Govt's 12 outcomes underpins public expenditures priorities, which include MDBs for health, including HIV and Aids, and education*
 - Strengthening equity in intergovt transfer system, particularly education & health
 - *Size of transfers to provinces shows value placed on those functions. Transfer system intentionally redistributive to address fiscal imbalances in the country*
 - Continuous investment in public infrastructure
 - *Public-sector infrastructure investment remains central to government's economic development plans*

FFC recommendations supported by Government – 2 of 4

- Chapter 3: Analysis of local government revenue and expenditure
 - Enforcement of s74(2) of Municipal Systems Act which sets basis for determining cost reflective tariffs
 - *Various MFMA circulars have been issued to guide municipalities on this*
 - Identification of primary cause of municipalities' poor performance in their billing and revenue collection functions
 - *National Treasury currently conducting training on revenue management*
 - Guidelines on municipal consumer debt
 - *Legislative framework, policies, guidelines and circulars already in place*
 - S64 of MFMA be amended to require regular updating of indigent policies
 - *Regular updating supported (regulated in Municipal Systems Act, not MFMA)*
 - Peer learning and support programmes in poor municipalities
 - *MFMA requires a range of policies and information be published on municipal websites which enables peer learning. There are also various forums that support peer learning, i.e. CFO forums, Cities Budget Forum, etc*
 - Review of Local Government data



FFC recommendations supported by Government – 3 of 4

- **Chapter 4: Sustainable development of SA's built environment**
 - Development of spatially compact urban form
 - *Govt initiated a new cities support programme involving several depts to assist cities to manage built environment in a way that promotes economic growth, job creation, access to basic services and environmental sustainability*
 - **Review of housing financing**
 - *Government considering the efficacy of all housing financing instruments*
 - **Analysis of fiscal and economic costs for government**
 - *Government welcomes the opportunity to assist the Commission develop their analytical methods*
- **Chapter 5: Environmental sustainability and climate change in the local government sector**
 - Climate change mitigation and adaptation strategies
 - *Government undertaking a number of initiatives that will assist municipalities to plan for the impacts of climate change*

FFC recommendations supported by Government – 4 of 4

- **Chapter 6: Budget analysis and exploration of issues to increase performance in basic education and health**
 - Coordination, financing and provisioning of scholar transport
 - *Both departments of transport and basic education are working on ways to improve provision of scholar transport in provinces; however no agreement has been reached in terms of fully transferring function to DoT*
 - Inclusive education of intellectually disabled children
 - *The Department of Basic Education currently developing norms and standards for inclusive education, which includes learners with special education needs*
 - Government to continue its ongoing efforts to reform the health fiscal frameworks
 - *The recommendation is noted. Government released a Green Paper on the National Health Insurance after the Commission tabled its recommendation for 2012/13 and the contents of the Green Paper were not taken into account. Health policy pronouncements and reforms will be conducted as part of the review of the Green Paper*

FFC recommendations for future consideration (2013 Budget onwards) – 1 of 2

- **Chapter 5: Environmental sustainability and climate change in LG**
 - Proposal for the establishment of a performance based conditional grant to municipalities for climate change issues
 - *Although agreed that municipalities develop their own climate change mitigation and adaptation strategies and that there may be merit in a specific conditional grant to address environmental issues, more research needs to be done on how such a grant should be structured (given poor performance on existing incentive grants)*
- **Chapter 3: Analysis of local government revenue and expenditure**
 - National and provincial treasuries' efforts to improve credibility of municipal budgets through annual benchmarking exercises should continuously be supported, and the results of these be reported to parliament, provincial legislatures and placed in public domain
 - *The broader circulation of these evaluations is not advisable as benchmarking exercises are technical discussions and do not replace formal budget processes*
 - As system matures, and taking into account risks, the release of such data be reviewed in the medium to longer term

FFC recommendations for future consideration (2013 Budget onwards) – 2 of 2

- **Chapter 6: Budget analysis and exploration of issues to increase performance in basic education and health**
 - Increases in education spending be directed towards investments that will have the biggest impact on quality, including learner and teacher support material
 - *Although agreed that increases in education spending be directed towards investments that will improve quality and prioritise access to education, it does not support the proposal to explicitly specify upfront the amounts to be spent supporting training and development of teachers. These are currently funded from Provincial Equitable Share*
 - Various reforms being rolled out at national government to strengthen oversight and support

FFC recommendations not supported by Government

- **Chapter 6: Budget analysis and exploration of issues to increase performance in basic education and health**
 - Implementation of Occupation Specific Dispensation (OSD) and formalisation of performance evaluation system in basic education and health sectors
 - *Although government is mindful of the rising public sector wage bill, it does not support the recommendation that national government take full responsibility for funding personnel costs, especially through a CG. These will create perverse incentives that that will undermine government's effort to address the issues raised by the Commission*

Recommendations of the Standing Committee on Appropriations on the 2012 Division of Revenue Bill

Recommendations by SCoA on 2012 DoRB

- The Standing Committee recommended as follows:
 - Minister of Basic Education should ensure that the national DBE submits to Parliament, within 60 days after adoption of Report by the House, a detailed progress report on the 49 schools constructed under the Accelerated Schools Infrastructure Development Initiative (ASIDI)
 - Minister of Health should ensure that the national DoH submits to Parliament, within 90 working days after the adoption of this report by the House, a proposal that seeks to address the challenge in relation to this misalignment of national and provincial priorities cognisant of various challenges experienced by provinces
 - Minister of Finance should ensure that NT effects a technical correction to the 2012 DoRB i.r.o. funds incorrectly allocated to the following municipalities: OR Tambo District Municipality; Alfred Nzo District Municipality; Matatiele Local Municipality; and Umzimvubu Local Municipality

Municipal Infra Grant corrections (Page 205)

Published Amounts (incorrect)			Corrected amounts			Reason for correction of MIG allocations
2012 MTEF (R 000)			2012 MTEF (R 000)			
2012/13	2013/14	2014/15	2012/13	2013/14	2014/15	
OR Tambo DM						From 2011 municipal elections, 2 local munies shifted from OR Tambo DM to Alfred Nzo DM
833 002	878 718	956 115	682 682	720 149	788 378	
Alfred Nzo DM						
223 483	235 748	256 455	373 803	394 317	424 192	
Matatiele LM						Both fall under Alfred Nzo where they are listed under each other - and amounts swopped around
37 795	39 869	42 174	34 926	36 842	38 972	
Umzimvubu LM						
34 926	36 842	38 972	37 795	39 869	42 174	

THANK YOU

