SPEECH ON THE DIVISION OF REVENUE BILL, 2005,
T. A. MANUEL, MP , MINISTER OF FINANCE

NATIONAL ASSEMBLY

1 MARCH 2005

Madam Speaker, Honourable Members, section 214 of the Constitution requires that Government ensure a transparent and equitable system to divide nationally-raised revenue between the three spheres of Government. This information is published in the Division of Revenue Bill as tabled on Budget Day, allowing each province and municipality to include all grants in their budgets and to properly plan for their expenditure.

Provinces and municipalities will budget for these allocations, determining how its share of the funds will be used to give expression to its priorities under the umbrella of policy frameworks agreed to through the intergovernmental forums such as Minmecs, joint Minmecs, the Budget Council, the Budget Forum and also the extended Cabinet meetings.

Madam Speaker, the core of the Division of Revenue Bill is contained in the seven schedules to the Bill. Schedule 1 provides a summary of the allocation of funds to the three spheres of government. Out of a total of R417,8 billion budgeted for 2005/06, national government is allocated R273,5 billion, provinces R134,7 billion and local government R9,6 billion. This national allocation includes R53,1 billion for debt service costs and R2 billion for the contingency reserve, leaving the national government with R210,8 billion to allocate to national departments, including conditional grants to provincial and local governments. In other words, the Bill allocates 61,8 percent of national available resources after debt servicing to provincial and local governments.

Schedule 2 and 3 allocate the equitable share component to provinces and municipalities. In 2005/6 financial year the equitable share allocated to provinces and municipalities is R134,7 billion and R10,6 billion respectively. Madam Chair, it is important that the House notes that 2005/6 division of the equitable share among the nine provinces and 284 municipalities is effected through two new formulae as explained in Annexure E in the Budget Review.

Schedule 4 sets out allocations to provinces (R10,6 billion) and municipalities (R5,4 billion) in 2005/06 to fund infrastructure and hospital services. The provincial and municipal infrastructure grants also support expanded public works programmes. Schedules 5 to 6 further allocate specific purpose conditional and other grants to provinces (R65,5 billion) and local government (R1,0 billion). I want to point out that Schedule 5 includes three conditional grants for HIV and AIDs programmes, in health, education and social development.

Provinces

Madam Speaker, there were major changes in the provincial fiscal framework which informed the 2005 MTEF. Firstly, the conditional grant framework has been revised to take into account the social security grant function that moves to the national sphere from 1 April this year. The provincial equitable share formula has been revised primarily to take into account the social security grant function shift. Secondly, a new conditional grant is introduced to fund the recapitalisation of further education and training colleges. Thirdly, for the housing conditional grant, which takes into account the new housing policy which shifts responsibility for housing to accredited municipalities, particularly metropolitan and major urban category B municipalities.

The 2005 MTEF provides for further deepening and consolidation of social services. The allocations to provinces further reinforce spending to reduce poverty and vulnerability. Of the additional R43,4 billion allocated to the provincial budget framework over the 2005 MTEF:

- R22,3 billion is added over baseline for social security grants over the next three years. This is mainly to extend social assistance through enhanced income support to the poor (including completion of the take up of 11, 12 and 13 year old children). This addition brings total allocations for social grants to R181,6 billion over the next three years.
- R6,9 billion is set aside over the next three years to implement pay progression in education in line with Government's strategy to improve remuneration packages of educators, attract and retain management skills in schools and accelerate the delivery of quality mathematics and science education.
- R2 billion is added to the housing subsidy programme over the next three years to support the implementation of the new housing delivery strategy, which is aimed at upgrading informal settlements, encouraging densification and expanding rental housing stock. This addition results in total allocations for the housing programme of R17,4 billion over the next three years.
- R1 billion is invested in the recapitalisation programme for further education and training (FET), specifically targeting the rehabilitation of infrastructure, improved governance and administration, and greater curriculum flexibility.
- R1 billion is added to the provincial infrastructure grant over the MTEF to speed up delivery of social infrastructure (particularly classrooms, health facilities, water and sanitation in schools and health facilities, and welfare services infrastructure) and economic infrastructure (roads and agriculture). This addition brings results in total allocations for the

provincial infrastructure grant of R13,2 billion over the next three years.

– R540 million is added to the National Tertiary Services grant administered by the national Department of Health. Health conditional grants are, next to the conditional grants for social security, the second largest in the system. These grants are currently being reviewed to increase their efficacy and the results of this review will inform their configuration from 2006 Budget.

Madam Speaker, I have noted in the Budget speech that we are setting aside additional funds for police, teachers and social workers so that we can retain skilled and experienced personnel in the public service, and incentivise performance including facilitating scarce skills in poor schools. These measures build on the positive impact we have had on the recruitment and retention of particular categories of staff in the health sector, following the 2003 Budget which set aside R3 billion over a three year period to deal with scarce skills and rural allowances for health workers. Both the 2003 and 2004 Budgets also set aside amounts to increase the number of health workers employed in the public sector. So our doctors and skilled nurses have not been forgotten – indeed, the three year budgeting system has already factored in their increases for the coming year.

Local Government

Over the next three years, municipalities will receive R58,3 billion, or an additional R5,4 billion. The substantial increase in the local government share is mainly targeted towards provision of free basic services, the extension of services to areas not presently serviced, and job creation through investment in labour based infrastructure programmes. In total, R31,5 billion over the 2005

MTEF is made available for water, electricity, refuse removal, and sanitation though the unconditional local government equitable share.

Funding for free basic services is directed through the local government equitable share, which rises from R9,6 billion in 2005/06 to R11, 4 billion in 2007/08. This unconditional equitable share component grows to 56 per cent of national transfers to local government in 2005/06, and compared to nine years ago when it was R1,5 billion in 1995/96, it will be increased seven fold to R11,4 billion in 2007/08.

The Municipal Infrastructure Grant is the key instrument to support the infrastructure budgets of municipalities, to support the extension of services to poor households, maintain and upgrade municipal infrastructure, and promote urban renewal and rural development. The process of consolidating infrastructure grants into the Municipal Infrastructure Grant will be completed by the end of 2005/06. Municipal infrastructure grants total R21,6 billion over the next three years, reflecting an additional R1,7 billion. This includes a ring-fenced allocation of R1,2 billion for the eradication of the bucket sanitation system.

Review of Intergovernmental Fiscal System

The review of the provincial and local government fiscal frameworks has highlighted a number of matters that needs special attention. Firstly, we need to improve on the quality and reliability of municipal and provincial sectoral data to inform decision making; and secondly, we will need to determine what effect the restructuring of the electricity industry will have on the local government equitable share formula. These are issues to take account for future budgets.

Most importantly, we should endeavour to improve on the quality of spending in all spheres of government. The Bill this year introduces new provisions to improve intergovernmental co-ordination and performance, by:

(a) enabling Ministers of concurrent functions in section 26 of the Bill to make recommendations on improving service delivery;

(b) improving governance over the administration of social grants through the new sections 15 and 30;

(c) strengthening the provisions on withholding, stopping and re-allocation of funds in sections 33, 34 and 35;

(d) ensuring that conditional grant funds are spent in line with their purpose, as outlined in section 31 of the Bill, and preventing fiscal dumping when there is underspending on such grants;

(e) improving planning and monitoring of infrastructure grants through sections 13, 14 and 37.

I table the Division of Revenue for its second reading debate.

Thank you