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DEBATE ON THE DIVISION OF REVENUE BILL, 2010
DEPUTY MINISTER OF FINANCE NHLANHLA NENE, MP
4 March 2010

Mister Speaker,
Honourable Members

Section 214 of the Constitution requires that government ensures a transparent and equitable system to divide nationally-raised revenue between the three spheres of government. The Division of Revenue Bill and its underlying allocations are the culmination of extensive consultation processes between national, provincial and local government.

By setting out three-year allocations for the equitable shares and conditional grants for provinces and local government, the Division of Revenue Bill entrenches the transparency and accountability of our intergovernmental fiscal system. It allows all spheres of government to plan ahead and to get down to the business of delivering services to our people.

The Division of Revenue Bill tabled in this House by the Minister of Finance on Budget Day was, for the first time, processed in terms of the Money Bills Amendment Procedure and Related Matters Act. A report was tabled with the budget explaining how the Division of Revenue and national budget give effect to the recommendations contained in the Committee reports on the 2009 Medium Term Budget Policy Statement, or the reasons for not taking these into account. The recommendations by the Committees on Appropriations were taken into account when the 2010 Division of Revenue Bill was drafted.

The Division of Revenue Bill

The 2010 Division of Revenue Bill contains details on each grant: its purpose, criteria for allocating the grant and an account of the performance of each grant. Such information

Mister Speaker, should contribute towards deepening Parliamentary oversight over the Executive.

Priorities and additions to baseline allocations

This Bill gives effect to the priorities articulated by President Zuma in his State of the Nation Address on the 11 February 2010. These priorities are: improving the quality of education; upgrading health care; promoting public safety; supporting rural development; creating decent jobs; building sustainable human settlements; encouraging efficient local government and combating corruption. As government is shifting to target based outcomes to increase efficiency and improve performance in support of inclusive development, these priorities are unpacked into 12 measurable outcomes.

Due to savings of R25.6 billion identified through shifting towards priorities, the budget framework allows us to provide an R112.2 billion in additional spending over the next three years, compared to our spending plans from a year earlier. Of the additional resources, national departments will receive R56.2 billion (50.1 per cent) of the additional resources, provinces R45.6 billion (40.6 per cent), and municipalities R10.5 billion (9.3 per cent). The largest growth in allocations is to local government, where the share of the total available resource envelope increases from 7.3 per cent in 2009/10 to 8.8 per cent in 2012/13.

Mister Speaker, Schedule 1 of the Bill provides a summary of the funds allocated to the three spheres of government. National department functions amount to R527 billion. This includes debt service cost amounting R71.4 billion and a contingency reserve of R6 billion. Provinces receive R261 billion, and R30.2 billion is allocated to local government.

Schedule 2 presents provincial equitable shares. Schedule 3 allocates equitable shares to municipalities. Schedules 4 through 6 allocate conditional and other grants to provinces and local government. Schedule 7 allocates in-kind transfers to municipalities. Schedule 8 allocates incentives for provinces and municipalities to meet targets with regards to priority government programmes.

Increased allocations for a range of provincial functions

Mister Speaker, the Division of Revenue Bill provides for a substantial share of nationally collected revenue to go to provinces, to strengthen social services programmes that have a high impact on human development, the quality of life and social transformation. The increase over baseline for the next three years amounts to R45.6 billion. This is to sustain the social progress made in recent years, to meet government’s broader developmental objectives and mitigate the effect of the current economic downturn on the poor. Including these revisions, allocations to provinces will amount to R322.9 billion in 2010/11.

Personnel related adjustments

Members of this house need to be alerted to the pressure that wage agreements in 2009 have placed on provincial spending over the MTEF. Of the R33.9 billion added to the

Provincial Equitable Share, R30.9 billion is to cover the cost of general wage agreements and occupation specific dispensation (OSD) agreements in health and education. While these additions should attract and retain experience and skill in the public sector, it is a substantial sum of money that does not necessarily translate into additional service delivery outputs. We cannot afford to continue expanding personnel expenditure, especially if we do not see substantially improved quality of services from the public sector.

Education priorities

The President stressed in his State of the Nation address that government will place education and skills development at the centre of its policies. A general adjustment of R3 billion over the MTEF is made to the provincial equitable share to cover health and education priorities. As in previous years, further investments are made to education to ensure that access and quality are improved.

Last year we announced that R500 million was added to the Infrastructure Grant for Provinces to ensure that classroom space is available for Grade R learners entering the system and that R1 billion is made available for schools to upgrade infrastructure, to improve security, install libraries and laboratories.

These improvements will become visible during this and next year. The technical secondary schools recapilitisation grant, amounting to R280 million, comes into effect from the beginning of the 2010/11 financial year and will be used to provide equipment and facilities at these schools.

R9 billion was added to the Provincial Equitable share to cover the cost of OSD agreements for educators, and a further R1.2 billion was added to the FET colleges grant for OSD for lecturers. The future of this country depends on these additions being converted into improved teaching and learning at our schools. Collectively we have a responsibility to ensure this happens.

Health priorities

R3.9 billion is added to the provincial equitable share to cover the OSD agreements for doctors and health therapists. Over the MTEF, the HIV and Aids programme receives an additional R8.7 billion to ensure sufficient resources are available for government to deliver on the commitments announced on World Aids Day. These additions are a demonstration of government’s commitment to step up its effort to deal with HIV and Aids decisively, and will mean pregnant women and HIV positive TB sufferers are put on treatment earlier, and children born with HIV are given triple treatment. These changes should save over 10 000 lives.

Social development priorities

The 2010 budget introduces the Expanded Public Works Programme for the social sector. In 2010 this grant will perform as a basic wage subsidy for non-profit organisations working in home community based care, allowing them to pay salaries to volunteers. This year an incentive model will be developed for implementation in 2011/12 and should create incentives for provinces to create labour intensive employment that provides much needed relief and support for the needy and vulnerable.

Other provincial functions
The housing programme has once again been stepped up. R1 billion is added to the programme in the outer year of the MTEF to ensure the accelerated role out of housing delivery. Large cities have the capacity to play a greater role in providing sustainable human settlements.

Local Government

Let me now turn to local government allocations. Over the next three years, municipalities will receive R210.4 billion (including in-kind-allocations and the sharing of the general fuel levy with metros), or an additional R12.2 billion. The local government equitable share receives a further R6.7 billion to protect the poor from increased electricity prices and secure the delivery of free basic services to all poor households.

Municipal infrastructure-related spending is allocated an additional R2.5 billion over the next three years. This results in total infrastructure transfers to municipalities of just under R65.9 billion over the next three years. If the infrastructure transfers that are allocated to national and public institutions (such as Eskom and water boards) and are spent on behalf of municipalities, are also taken into account, this amount increases to R77.5 billion.

It is critical that intergovernmental grants are designed in such a manner that it supports optimal outcomes. It has become evident that there is a need to reform the Municipal Infrastructure Grant to appropriately respond to the different demographic, economic, infrastructural and institutional challenges faced by the 283 municipalities in the country.

In the 2009 Budget, the Municipal Infrastructure Grant for Cities was introduced to enable the cities to more effectively manage, support and account for built environment outcomes, by focusing on their entire infrastructure programme performance rather than solely on project outputs. Consistent with section 156(4) of the Constitution, a process is underway to accredit large municipalities to administer national housing programmes. This policy shift should improve coordination and alignment of interventions in the built environment. Starting with the Municipal Infrastructure Grant for Cities, government is exploring ways to rationalise infrastructure grants at municipal level into a broader human settlements grant for cities.

Reforms are also underway to introduce programmes targeted at rural areas. The 2010 budget sees the introduction of the Rural Households Infrastructure Grant, amounting to R1.2 billion over the MTEF. The Regional Bulk Infrastructure Grant also receives an additional R500 million over the MTEF. The Expanded Public Works Incentive Grant is also extended to rural municipalities, where eligibility to participate in this incentive is relaxed for these municipalities by setting a zero threshold limit for them. These adjustments are intended to enhance access to water, sanitation, electricity and roads and extend regional bulk infrastructure to support such services to the poor. It is also geared towards promoting municipal initiatives that will support more efficient use of energy and the roll out of on-site water and sanitation services to very poor households where conventional connector sites are not viable or appropriate.

Mister Speaker, allocations for capacity-building totalling R1.8 billion over the 2010 MTEF continues to be complemented by the Siyenza Manje programme (via the DBSA) to develop skills in engineering, planning and financial management in municipalities. The Department of Cooperative Governance and Traditional Affairs announced the Local Government Turnaround Strategy in 2009. Government works in a coordinated manner to ensure that capacity building initiatives are implemented coherently and also to create a supporting environment for municipalities.

These allocations aim to support local programmes that will provide for sustainable neighbourhoods, while at the same time attracting private sector investment in under-serviced communities. Together with increases in housing allocations, this should provide a major boost to local economic development.

Conclusion

Mister Speaker, I would like to thank the Honourable Sogoni for his leadership and the Members of the Standing Committee on Appropriations for their hard work in the process of this Division of Revenue Bill.

Mister Speaker and Honourable Members, it is clear that the allocations contained in this year’s Division of Revenue Bill should put government in a better position to accelerate delivery and improve the efficacy of public services.

I thank you.