



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

**SECOND READING DEBATE ON THE DIVISION OF REVENUE
AMENDMENT BILL, 2010,
DEPUTY MINISTER OF FINANCE, HON. NHLANHLA NENE
NATIONAL ASSEMBLY**

4 November 2010

Honorable Speaker

Honorable Deputy President

Honorable Ministers and Deputy Ministers

Honorable 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 main budget announces government spending for the next financial year and preliminary allocations for the two subsequent years. In the middle of each year, the adjustments process provides an opportunity to revise the main budget in response to changes that have affected planned government spending for that year.

The Money Bills Amendment Procedure and Related Matters Act requires that the Minister of Finance tables a division of revenue amendment bill with the revised fiscal framework if the adjustments budget effects changes to the Division of Revenue Act for the relevant year. The Division of Revenue Amendment Bill tabled in this House together with the Medium

Term Budget Policy Statement and Adjustments Appropriation Bill on 27 October 2010 will, for the first time, be processed in terms of the Money Bills Amendment Procedure and Related Matters Act. The Division of Revenue Amendment Bill and its underlying allocations are the culmination of extensive consultation processes between national, provincial and local government.

The 2010 Division of Revenue Act covers in detail all transfers to be made to provinces and municipalities over the next three years. The schedules attached to the Division of Revenue Amendment Bill replace the schedules to the 2010 Division of Revenue Act with respect to this (2010/11) year so as to reflect the updated allocations that take account of adjustments made through the adjustments budget process, and to account for shifts, virements and corrections in the schedules of transfers tabled with the 2010 Division of Revenue Bill. The transfers for the two outer years of the MTEF are not changed and preliminary adjustments to those transfers and the transfers for 2013/14 are shown in the Medium Term Budget Policy Statement.

The Division of Revenue Amendment Bill

The Division of Revenue Amendment Bill is tabled in the face of ongoing global economic uncertainty. Even with the benefit of higher than forecast government revenues, there is still a significant need for prudence. Members are reminded that levels of government expenditure before the 2008 financial crisis have been maintained, but this was made possible through increased debt.

The adjustments budget makes provision for an additional R7.2 billion to the 2010 Budget. This consists of rollovers, unforeseeable and

unavoidable expenditure, higher than expected personnel remuneration costs, self-financing expenditure and a savings made in state debt costs. A R6 billion contingency reserve that was set aside and projected savings of R3.6 billion at the national level means total estimated spending decreases by R2.5 billion. National departments will receive an additional R2.6 billion, provinces R6.1 billion, and municipalities R493 million.

The cost of the above inflation agreements of 2010

Mister speaker, national departments and provinces were told to budget for salary increases of 5.3 per cent and not instructed to budget for an increase to the housing allowance. The wage agreement reached was higher than 5.3 per cent and also included a R300 per month increase in the housing allowance. The difference between what was forecast and the agreement has required an adjustment of R6.2 billion. R2.4 billion is added for national departments and R3.8 billion is added to the provincial equitable share to cover higher remuneration costs.

Increased allocations for a range of provincial functions

Adjustments to provincial transfers cater for a limited number of the many spending pressures that exist in provincial budgets. These are as follows:

- R4.2 billion is added to the Provincial Equitable Share, with R3.8 billion for the wage agreements discussed already. A further R350 million is added for health therapeutic and Annexure A Doctor OSD agreements in health.
- R31.3 million is added to the FET Colleges Grant to cover the cost of wage agreements.

- R769 million is added to the Devolution of Property Rates fund grant as additional information about property ownerships and rates have become available.
- R40 million is added to the Comprehensive HIV and Aids Programme Grant to provide for increased demand for male circumcision. This demonstrates government's continued commitment to step up its effort to deal with HIV and Aids decisively.
- Lastly, the R214 million is allocated to the Provincial Infrastructure Disaster Relief Grant to repair roads damaged by floods in 2009/10 and R50 million is allocated to the Agriculture Disaster Relief Grant to cover the cost of animal feed in drought stricken areas.

Local Government

In the 2010 budget the Minister of Finance announced increases of R10.1 billion to the Local Government Fiscal Framework. The adjustments for local government are as follows:

- R391 million is added to the local government equitable share to allow the rollover of funds previously held back due to unspent conditional grants. Members are reminded of the context of these withheld unspent conditional grants. It is critical that municipalities use their conditional grants effectively to achieve the developmental goals the grants are aimed at achieving. I trust that this house will use its oversight responsibilities to ensure this action is not repeated.
- R92 million is added to Disaster Relief Grants for drought relief to Mossel Bay Municipality.
- R10 million in rollovers are added to the water services operating subsidy grants.

Conclusion

Honourable Speaker, allow me to express my appreciation to the Minister of Finance Mr. Pravin Gordhan for his sound leadership, to National Treasury Director-General Mr. Lesetja Kganyago and his team for the sterling work in putting together this Division of Revenue Amendment Bill, and to the Standing Committee on Appropriations, under the steady hand of the Honourable Elliot Mshiyeni Sogoni, for the contributions in the process of this Division of Revenue Amendment Bill.

Honorable Speaker, it is clear that the allocations contained in this year's Division of Revenue Amendment Bill should put government in a better position to deal with the additional pressures placed on their 2010 Budgets that were not known when the 2010 Budget was presented.

I thank you.