6

Division of revenue and medium-term expenditure estimates

The 2007 MTEF provides for additional spending of R80 billion over the 2006 Budget forward estimates. After revisions, total non-interest spending increases to R477,7 billion in 2007/08, R530,1 billion in 2008/09 and R581,3 billion in 2009/10.

Over the medium term, significant real growth is proposed for provincial and local budgets, which collectively will receive about R47 billion or 58,8 per cent of additional resources allocated.

These proposed allocations take account of government's medium-term strategic framework and aim to strengthen the ability of provinces and municipalities to deliver better services to a wider section of the population; address vulnerability and inequality through proper targeting of services and improved governance; increase investment in communities to ensure sustainable livelihoods; and develop the skills needed to support economic growth through personnel development initiatives. Additional support is provided for municipalities that will host 2010 FIFA World Cup matches.

Division of revenue overview

Collectively, provinces and municipalities receive the largest share of additional resources

The division of revenue set out in Table 6.1 gives expression to the priorities presented in Chapter 5. Of the proposed additional allocations, R32,9 billion is earmarked for national departments, R28,2 billion for provinces and R18,9 billion for local government.

The additional provincial allocations will expand social and economic infrastructure; improve access to quality school education; support the health system's responsiveness to community needs (particularly those of poor communities); and strengthen social welfare services critical for cohesive community development.

Additional allocations proposed for municipalities will put local government in a better position to improve the quality and availability of basic municipal services, strengthen public transport infrastructure, and ensure the construction and renovation of stadiums and related infrastructure ahead of the 2010 FIFA World Cup.

Provincial and municipal expenditure reviews published

Details of baseline spending estimates and service delivery trends are set out in the *Provincial Budgets and Expenditure Review: 2002/03–2008/*09 and *Local Government Budgets and Expenditure Review: 2001/02–2007/*08, published by the National Treasury on 17 October 2006.

Revisions to national allocations – including higher education, economic infrastructure investment and strengthening the criminal justice system – are discussed in Chapter 5.

Funding provincial government

National transfers to provinces grow by an annual average of 5,6 per cent in real terms

Table 6.1 shows that of the R28,2 billion added to the provincial share over the next three years, R18,6 billion goes to the equitable share and R9,6 billion is added to conditional grants. These revisions result in national transfers to provinces growing from a revised R178,3 billion in 2006/07 to R248,0 billion in 2009/10, an increase of 6,7 per cent a year in real terms.

Table 6.1 Medium-term expenditure framework and the division of revenue, 2006/07 – 2009/10

R million	2006/07 Revised	2007/08	2008/09	2009/10	2007 MTEF	Growth
		Medium-term estimates				
National	**215 619**	**242 285**	**263 104**	**286 429**		**9,9%**
Provincial	**178 305**	**201 501**	**224 922**	**248 005**		**11,6%**
Equitable share	150 753	171 271	191 474	211 784		12,0%
Conditional grants	27 552	30 229	33 448	36 220		9,5%
Local	**27 718**	**33 864**	**42 025**	**46 821**		**19,1%**
Equitable share	18 058	20 676	23 775	29 444		17,7%
Conditional grants	9 660	13 189	18 251	17 377		21,6%
Total	**421 642**	**477 650**	**530 052**	**581 255**		**11,3%**
Percentage shares						
National	*51,1%*	*50,7%*	*49,6%*	*49,3%*		
Provincial	*42,3%*	*42,2%*	*42,4%*	*42,7%*		
Local	*6,6%*	*7,1%*	*7,9%*	*8,1%*		
Changes to baseline						
National	**654**	**8 289**	**8 610**	**16 040**	**32 939**	
Provincial	**1 626**	**5 150**	**7 440**	**15 571**	**28 161**	
Equitable share	–	3 570	4 374	10 652	18 596	
Conditional grants	1 626	1 580	3 066	4 919	9 565	
Local	**1 186**	**3 361**	**6 450**	**9 089**	**18 900**	
Equitable share	–	600	1 000	3 400	5 000	
Conditional grants	1 186	2 761	5 450	5 689	13 900	
Total	**3 466**	**16 800**	**22 500**	**40 700**	**80 000**	

Provincial equitable share

Increased allocations reinforce social services and education

The provincial equitable share is projected to grow by an annual average rate of 7 per cent in real terms. A large proportion of the additional allocations to provinces is aimed at improving the quality of and access to education, health and social development through a range of targeted policy interventions, including investments in personnel. In-service training and development programmes, especially in relation to mathematics, science and life orientation, will be an integral part of these programmes.

Stepped up funding for remuneration of health and social development professionals

Government plans to allocate about R13,1 billion over the spending period to the social services sector to improve remuneration packages of selected personnel; employ professional staff, particularly in health and social development; and boost training and development.

A further R5,5 billion is allocated to programmes targeted at improving the quality of social services and to allow for provincial-specific interventions in social and economic services over the next three years. Increased transfers to provincial government will fund initiatives aimed at:

Quality of school infrastructure to be improved

- Improving the quality of education through evaluating school performance and investing in physical infrastructure and equipment, with particular emphasis on school libraries and laboratories.
- Expanding emergency medical services.
- Expanding provision of children's homes and centres that address substance abuse. The revisions also support the implementation of new social welfare legislation such as the Children's Act and the Older Persons Bill.
- Investing in provincial-specific social and economic functions, including road resurfacing and maintenance, and expanded support for agriculture and provincial tourism.

Newly demarcated provincial boundaries

Provincial boundaries have been redrawn to eradicate cross-boundary municipalities. The implementation of the new boundaries came into effect on 1 March 2006.

Redrawn provincial boundaries have a significant impact on the finances of certain provincial governments. In particular, they affect provincial equitable shares, conditional transfers and own-revenue sources.

The provincial equitable share allocations proposed in the 2006 *Budget Review* were based on the "old" boundaries in place prior to March 2006 due to the fact that data used to divide the equitable share and conditional grants was not yet updated to reflect the new boundaries. As an interim measure, the 2006 Division of Revenue Act allowed a province to continue to spend resources in areas that technically belonged to another province for at least another year.

In the 2007 MTEF, the provincial equitable share formula and the allocation mechanisms for conditional grants are aligned to the new boundaries.

Strategic projects are planned in transportation, tourism, agriculture and infrastructure

Strategic projects falling under government's accelerated and shared growth initiative require joint funding from provincial and local sources. The expanded provincial allocation takes this into account. Most of these projects are in transportation, tourism, agriculture and industrial infrastructure, and fall within geographical areas with high economic potential. Projects under consideration include the Umzimvubu River Basin in the Eastern Cape, and selected road and rail networks linking provincial economic centres to domestic and international markets.

Many of these projects will require strong intergovernmental cooperation and joint decision-making during conceptualisation and development. Joint funding arrangements between national, provincial and local government will be explored, together with public private partnership options where appropriate.

Equitable share is divided using an objective redistributive formula

The equitable share allocation is divided among provinces using an objective redistributive formula. The formula is reviewed and updated every year, taking into account the recommendations of the Financial and Fiscal Commission (FFC). The formula is aligned to the newly demarcated provincial boundaries. More detail on the formula and government's response to the FFC's proposals will be published with the Division of Revenue Bill in 2007. Table 6.2 sets out the equitable share allocations over the medium term.

Table 6.2 Provincial equitable share allocations, 2006/07 – 2009/10

	2006/07	2007/08	2008/09	2009/10
R million	Revised	Medium-term estimates		
Eastern Cape	24 643	27 074	30 269	33 481
Free State	9 595	10 745	12 012	13 286
Gauteng	23 362	28 217	31 548	34 896
KwaZulu-Natal	32 052	37 067	41 438	45 833
Limpopo	20 616	22 340	24 976	27 626
Mpumalanga	11 227	14 140	15 807	17 484
Northern Cape	3 452	4 598	5 140	5 686
North West	12 347	11 973	13 385	14 804
Western Cape	13 459	15 118	16 898	18 689
Total	**150 753**	**171 271**	**191 474**	**211 784**

Conditional grants

Spending on conditional grants to grow to R36,2 billion in 2009/10

Spending on conditional grants is budgeted to grow from a revised R27,6 billion in 2006/07 to R36,2 billion in 2009/10, with growth occurring mainly in infrastructure-related grants. The provincial infrastructure grant is increased by R4,3 billion over the next three years. This will boost infrastructure investment to R21 billion over the medium term and allow provinces to address social and economic infrastructure needs.

Expanded public works programmes are given a significant boost

After successfully testing alternative labour-intensive programmes such as Gundo Lashu, Zibambele and Vukuzakhele, government has decided to expand these public works-type projects to all provinces. The bulk of the additional allocation to the provincial infrastructure grant will strengthen the expanded public works programme in roads, boosting employment and skills acquisition.

An additional allocation of R1 billion is proposed for the hospital revitalisation grant, which helps provinces to transform and modernise infrastructure and equipment. This would bring the total allocation for this grant to R6,8 billion over the MTEF period.

Table 6.3 Conditional grants to provinces, 2006/07 – 2009/10

R million	2006/07 Revised	2007/08 Medium-term estimates	2008/09	2009/10
Agriculture	**401**	**462**	**484**	**530**
Agriculture disaster management grant	45	–	–	–
Comprehensive agriculture support programme grant	300	415	435	478
Land care programme grant	56	47	49	51
Education	**1 713**	**1 900**	**2 195**	**1 495**
Further education and training college sector recapitalisation grant	470	595	795	–
HIV and Aids (life skills education) grant	144	152	162	171
National school nutrition programme grant	1 098	1 153	1 238	1 324
Health	**10 207**	**11 121**	**12 043**	**13 046**
Comprehensive HIV and Aids grant	1 616	1 746	1 935	2 276
Forensic pathology services grant	562	551	467	422
Health professions training and development grant	1 520	1 596	1 676	1 760
Hospital revitalisation grant	1 527	1 907	2 283	2 582
National tertiary services grant	4 981	5 321	5 682	6 006
Housing	**6 822**	**8 238**	**9 853**	**11 531**
Integrated housing and human settlement development	6 822	8 238	9 853	11 531
Land Affairs	**8**	**–**	**–**	**–**
Land distribution: Alexandra urban renewal project	8	–	–	–
National Treasury	**4 983**	**6 164**	**6 847**	**7 997**
Provincial infrastructure grant	4 983	6 164	6 847	7 997
Sport and Recreation South Africa	**119**	**194**	**290**	**345**
Mass sport and recreation participation programme grant	119	194	290	345
Transport	**3 241**	**2 151**	**1 736**	**1 277**
Gautrain rapid rail link	3 241	2 151	1 736	1 277
Trade and Industry	**58**	**–**	**–**	**–**
Industrial development zone	58	–	–	–
Total	**27 552**	**30 229**	**33 448**	**36 220**

Programme is upgrading or replacing infrastructure at 386 state hospitals

The hospital revitalisation programme upgrades or replaces hospital infrastructure at government's 386 hospitals. Hospitals recently completed include Mary Theresa (Eastern Cape), George (Western Cape), Lebowakgomo (Limpopo) and Piet Retief (Mpumalanga). Another 26 large hospital projects are underway, including Chris Hani Baragwanath, Natalspruit and Mamelodi (all in Gauteng), Paarl, Vredenberg and Worcester (Western Cape), Pelonomi and Boitumelo (Free State) and Rob Ferreira, Ermelo and Themba (Mpumalanga).

Housing programme to get R29,6 billion over the next three years

Government intends to allocate an additional R2,7 billion over the next three years to support the integrated housing and human settlement and development grant. In total, the housing programme is allocated R29,6 billion over the medium term. By 2009/10, spending on low-income housing will reach R11,5 billion per year.

Additional R750 million to expand comprehensive HIV and Aids programme

To enable the health sector to deal with the take-up of the antiretroviral programme and to expand a range of prevention, care, treatment and nutrition activities, an additional R750 million is made available for the comprehensive HIV and Aids grant. By 2009/10 government will be spending close to R2,3 billion on the HIV and Aids programme.

A further R550 million is proposed for the national tertiary services grant over the MTEF to procure radiology and oncology equipment in the large tertiary hospitals, and to improve cancer services.

A R255 million boost for grassroots sport

An allocation of R255 million is targeted at grassroots club structures to foster mass participation in sport and recreation, aimed at leaving a legacy beyond 2010.

Funding local government

Policy priorities and fiscal framework

Strong emphasis is placed on strengthening local government's ability to deliver basic municipal services over the medium term, and on the expansion and upgrading of key infrastructure.

Local government receives a further R18,9 billion

An additional R18,9 billion is proposed for local government over the MTEF period, resulting in its share of nationally raised revenue growing from R27,7 billion in 2006/07 to R46,8 billion in 2009/10. This includes R27,1 billion to replace revenue lost with the abolition of RSC levies, until a replacement is found.

An amount of R5 billion is added to the local government equitable share to strengthen the ability of municipalities to sustain the rollout of free basic services to disadvantaged communities.

Table 6.4 Revision to local government allocations, 2006/07 – 2009/10

R million	2006/07 Revised	2007/08 Medium-term estimates	2008/09	2009/10
Total local government allocation	**27 718**	**33 864**	**42 025**	**46 821**
Equitable share and related[1]	18 558	21 226	24 375	29 906
Infrastructure	8 304	11 890	17 251	16 515
Capacity building and restructuring	855	749	400	400
Changes to baseline				
Equitable share and related	–	600	1 000	3 400
Infrastructure	1 079	2 761	5 450	5 689
Capacity building and restructuring	106	–	–	–
Total	**1 186**	**3 361**	**6 450**	**9 089**

1. Includes water services operating subsidy grant.

Funds support infrastructure development in World Cup host cities

An additional R13,9 billion is allocated to conditional grants to ensure that host cities are in a position to meet the requirements of hosting the 2010 FIFA World Cup and for the development, rehabilitation and maintenance of bulk municipal infrastructure, and the eradication of the bucket sanitation system.

Transfers to local government

Allocations target expanded free basic services to poor households

Excluding the provision for RSC levies, the equitable share grows at a real rate of 11,1 per cent a year, from R11,1 billion in 2006/07 to R18,9 billion in 2009/10, boosting the ability of municipalities to fund the provision of free basic services to poor households (water, sanitation and electricity), and to improve governance and administrative systems.

Capital transfers to municipalities amount to R45,7 billion over the next three years. This includes:

- R24,7 billion to step up infrastructure to enable municipalities to roll out basic municipal services.
- R7,8 billion earmarked for the construction and upgrading of 10 stadiums in the 2010 FIFA World Cup host cities. A further R6,7 billion is allocated to host cities as part of national government's contribution to upgrade components of municipal infrastructure in the stadium environs, and for public transport and systems improvement. The cities will fund a portion of these programmes from their own revenue.
- R1,4 billion allocated to ease pressure on bulk systems for water supply and sanitation, and to extend future capacity as more households gain access to basic services.
- R1,4 billion to roll out electricity infrastructure in municipalities.

Strengthening the capacity of local government

The Development Bank of Southern Africa is providing aid to municipalities with weaker management and financial systems through *Siyenza Manje*. In this initiative, engineers, project managers, town planners and financial management specialists are deployed in selected municipalities to accelerate the rollout of basic services, promote economic growth and job creation, and to provide financial management assistance. Since May 2006, 41 technical experts have been deployed. During 2006/07, this number will increase to 90, with a further 30 young interns taken on board. Priority sectors include water, sanitation, electricity and housing. *Siyenza Manje* is intended to conclude after five years. The programme complements government's existing capacity-building initiatives through Project Consolidate, the Municipal Financial Management Technical Assistance Programme and rollout of the municipal infrastructure grant. A total of R741,3 million is set aside for this initiative over the next three years.

Neighbourhood development grant to boost communities

About R3,7 billion is budgeted for the neighbourhood development partnership grant to fund improvements to settlements, with the view that they become vibrant and sustainable communities. Over 60 municipalities submitted 234 applications for funding, with an aggregate request for R5,1 billion. The allocations set out in this framework provide for the continuation and completion of some of these projects.

Capacity building projects support municipal planning, budgeting and financial management

The capacity-building and restructuring grants support municipalities in developing their planning, budgeting, financial management and technical skills. The capacity-building and restructuring component is R749 million in 2007/08, declining to R400 million in 2008/09 due to the local government restructuring grant being phased into the local government equitable share.

Conclusion

The shift in resources towards provinces and municipalities is sustained over the next three years. The additional R47 billion for provincial and local government represents a significant contribution to key pro-poor social and household service programmes; rollout of free basic services; and to meet the requirements of hosting the 2010 FIFA World Cup.

In particular, given the labour-intensive nature of provincial and municipal infrastructure spending, additions to the infrastructure grants will support the expanded public works programme's aim of creating jobs and developing skills.