8

Division of revenue and intergovernmental transfers

- The 2008 division of revenue reflects continued prioritisation of social and household services delivered by provinces and municipalities, and a resultant shift in resources to these spheres of government.
- The medium-term expenditure framework (MTEF) focuses strongly on local government, to support universal access to basic services, infrastructure delivery and readiness for the 2010 FIFA World Cup. Higher allocations to provinces mainly support specific programmes in education, health, welfare services, agriculture and housing. Infrastructure grants grow particularly rapidly, reinforcing government's commitment to invest in future economic growth and to broaden access to services, while providing resources for the maintenance of the existing capital stock.
- In 2008/09, national government will receive 49.5 per cent of nationally raised revenue, provinces 43.0 per cent and local government 7.6 per cent. Over the next three years, transfers to local government grow by 14.5 per cent annually, while additions to grants result in transfers to provinces increasing by 12.7 per cent per year.

Introduction

Allocations extend the reach and quality of education, health, welfare, agriculture and housing

The 2008 MTEF recognises the important developmental role played by provinces and municipalities. Additional allocations to provinces are made to continue extending the reach and quality of services in education, health, welfare services, agriculture and housing. The additional allocations provide for improved conditions of service for educators, health professionals and social workers; a step up in the school building programme; greater access to the integrated school nutrition programme; and improved public health care.

Greater emphasis on ensuring access to potable water, sanitation and electricity

Additional allocations to the local government equitable share and the municipal infrastructure grant are made to support community access to potable water, sanitation and electricity, and to accelerate municipal infrastructure delivery. Initiatives to improve financial management and boost capacity in planning, budgeting, and execution of infrastructure programmes are also given priority.

This chapter outlines the division of nationally raised revenue between national, provincial and local government, focusing on the spending plans of provincial and local governments. National spending priorities are presented in Chapter 7. Further details of provincial and local government allocations and the formulas used to determine them are contained in the Explanatory Memorandum to the Division of Revenue and conditional grant frameworks accompanying the 2008 Division of Revenue Bill. These are also available at www.treasury.gov.za.

Overview of the division of revenue

Over R115 billion added to current baselines

The 2008 MTEF adds R115.6 billion to be shared between national, provincial and local government. This is in addition to the R1.8 trillion already included in the forward estimates from the 2007 Budget. Of the additional amount, national government receives R55.5 billion, provinces receive R45.7 billion and municipalities get R14.4 billion.

These revisions result in total non-interest spending (excluding the contingency reserve of R6 billion in 2008/09, R12 billion in 2009/10 and R20 billion in 2010/11) growing 11.2 per cent annually, from R489.3 billion in 2007/08 to R673.5 billion in 2010/11.

The proposed division of revenue takes account of the revenue-raising capacity and expenditure responsibilities of each sphere of government. On average, municipalities raise about 85 per cent of their revenue through local taxes and user charges, and provinces raise about 3.5 per cent through own-revenue instruments.

Financial and Fiscal Commission recommendations for the 2008/09 Division of Revenue

Before arriving at the proposed division of revenue for 2008/09, government considered recommendations from the Financial and Fiscal Commission (FFC).

These recommendations, received in May 2007, dealt primarily with mitigating the impact of the financing of the 2010 FIFA World Cup, stepping up the national school nutrition programme, aligning infrastructure grant funding to further investment in education infrastructure, learner support materials, no-fee schools, roads and housing delivery.

As the comprehensive response contained in the explanatory memorandum accompanying the Division of Revenue Bill shows, most of the recommendations have been accepted and are reflected in the approach to the sharing of nationally raised revenue set out in this *Budget Review* and the Division of Revenue Bill.

Table 8.1 Division of nationally raised revenue, 2004/05 – 2010/11

R million	2004/05	2005/06 Outcome	2006/07	2007/08 Revised estimate	2008/09	2009/10 Medium-term estimates	2010/11
State debt cost	48 851	50 912	52 192	52 829	51 236	51 125	51 156
Non-interest expenditure	319 608	365 772	418 000	489 288	559 860	630 481	693 514
Percentage increase	*13.2%*	*14.4%*	*14.3%*	*17.1%*	*14.4%*	*12.6%*	*10.0%*
Total expenditure	**368 459**	**416 684**	**470 192**	**542 117**	**611 096**	**681 606**	**744 670**
Percentage increase	*12.1%*	*13.1%*	*12.8%*	*15.3%*	*12.7%*	*11.5%*	*9.3%*
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Division of available funds							
National departments	**167 289**	**194 723**	**212 629**	**246 937**	**273 929**	**302 672**	**324 142**
Provinces	**138 511**	**154 368**	**178 871**	**205 224**	**238 076**	**268 158**	**293 640**
Equitable share	120 885	135 292	150 753	172 862	199 377	225 466	246 306
Conditional grants	17 627	19 076	28 118	32 362	38 699	42 692	47 334
Local government	**13 808**	**16 682**	**26 501**	**37 127**	**41 855**	**47 651**	**55 732**
Equitable share[1]	7 678	9 643	18 058	20 676	24 889	30 156	36 196
Conditional grants	6 130	7 038	8 443	16 451	16 966	17 495	19 536
Total	**319 608**	**365 772**	**418 000**	**489 288**	**553 860**	**618 481**	**673 514**
Percentage shares							
National departments	52.3%	53.2%	50.9%	50.5%	49.5%	48.9%	48.1%
Provinces	43.3%	42.2%	42.8%	41.9%	43.0%	43.4%	43.6%
Local government	4.3%	4.6%	6.3%	7.6%	7.6%	7.7%	8.3%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of RSC/JSB levies.

Revisions to the provincial budget framework

Most of government's efforts to build human capital take place at provincial level

Provincial governments play a key role in implementing programmes that alleviate poverty and vulnerability, and which strengthen social cohesion. Most of government's efforts to build human capital take place at provincial level. A further R45.7 billion is allocated to provincial baselines for interventions targeted to achieve developmental objectives. Of this, R33.2 billion is to the provincial equitable share and R12.5 billion to conditional grants.

These additions result in transfers to provinces growing by 12.7 per cent annually, from R205.2 billion in 2007/08 to R293.6 billion in 2010/11. At R238.1 billion in 2008/09, national transfers to provinces are 16 per cent higher than in 2007/08. The growth in these transfers should strengthen provinces' ability to ensure access to quality schooling, health care, social welfare services and housing, and increase job creation in agriculture and road construction and maintenance.

Table 8.2 shows the breakdown of national transfers to provinces.

Table 8.2 Total transfers to provinces, 2006/07 – 2010/11

	2006/07	2007/08		2008/09	2009/10	2010/11
R million	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	27 555	30 945	31 310	35 990	40 565	44 659
Free State	11 437	13 065	13 180	15 199	17 098	18 845
Gauteng	32 618	37 990	38 330	44 278	48 909	51 613
KwaZulu-Natal	36 201	42 290	42 876	49 509	56 336	62 167
Limpopo	22 841	24 855	25 109	29 103	32 810	36 253
Mpumalanga	12 444	15 858	16 027	18 550	21 056	23 202
Northern Cape	4 429	5 642	5 821	6 638	7 594	8 480
North West	14 203	14 029	14 553	16 399	18 425	20 241
Western Cape	17 141	18 929	19 169	22 410	25 367	28 179
Total	**178 871**	**203 602**	**205 224**	**238 076**	**268 158**	**293 640**

Policy priorities underpinning equitable share revisions

The proposed revisions of R5.9 billion, R9.7 billion and R17.6 billion bring the provincial equitable share allocations to R199.4 billion in 2008/09, R225.5 billion in 2009/10 and R246.3 billion in 2010/11.

Programmes that impact on human development and social transformation are strengthened

The additions to the baseline strengthen provincial social services programmes that have a high impact on human development, quality of life and social transformation. A large share of the proposed revisions to the provincial equitable share is intended for public schooling, health care and welfare services.

Early childhood development and Grade R prioritised

Government recognises the significance of sound preschool education in children's cognitive development, laying a solid foundation for better educational achievement in later learning. Spending over the MTEF prioritises scaling up Grade R, including training more practitioners, building more classrooms and providing equipment. It is essential to ensure that public schools are more inclusive, containing facilities that cater for learners with disabilities. To help provinces implement the new curriculum, government has set aside funding for the procurement of textbooks for learners in Grades 10, 11 and 12.

Improvements in the service conditions of social sector professionals

Government is taking steps to improve service conditions for social sector professionals. The aim is to attract and retain skilled personnel, and to ensure that these professions are attractive career options for future generations.

The 2007 public sector wage agreement and the occupation-specific dispensation for educators, social workers and nurses sustain a continued pattern of civil service salary improvements at a cost of R31.7 billion over the next three years. In the 2007 MTEF R6 billion was allocated for the implementation of the occupation-specific dispensation for school-based educators, which provides salary increases linked to qualifications, length of service and performance. The 2008 MTEF adds a further R1.6 billion to ensure the implementation of this dispensation.

Through its scarce skills dispensation and rural allowances for health professionals, government has successfully recruited 39 596 health professionals since 2004. In the 2007 MTEF R6.4 billion was allocated to step up the health professional recruitment programme and begin a remuneration review. The health sector recruitment drive is on track and it is projected that by 2010/11, another 25 000 health professionals will have joined the public health system.

An occupation-specific dispensation for social work professionals will also be concluded this year.

Provincial equitable share formula

An objective redistributive formula is used to divide the equitable share among provinces. The formula, detailed in the Explanatory Memorandum to the Division of Revenue published with the Division of Revenue Bill, consists of six components that capture the relative demand for services between provinces, taking into account their circumstances. For the 2008 Budget, the distribution of the weights by component remains unchanged, as follows:

- An *education share* (51 per cent) based on the size of the school-age population (ages 5-17) and the number of learners (Grade R to 12) enrolled in public ordinary schools
- A *health share* (26 per cent) based on the proportion of the population without access to medical aid
- A *basic share* (14 per cent) derived from each province's share of the national population
- An *institutional component* (5 per cent) divided equally between the provinces
- A *poverty component* (3 per cent) reinforcing the redistributive bias of the formula
- An *economic output component* (1 per cent) based on GDP by region (GDP-R) data.

The components of the formula are neither indicative budgets nor guidelines for how much should be spent on those functions. Rather, the education and health components are weighted broadly in line with expenditure patterns to provide an indication of relative need. Provincial executive councils have discretion regarding the determination of departmental allocations for each function, taking into account the priorities that underpin the division of revenue.

For the 2008 MTEF, the formula has been updated with data from the 2007 Community Survey, the 2007 education Snap Shot Survey, the 2006 General Household Survey and the 2005 GDP-R. The impact of these updates on the provincial equitable shares is phased in over the next three years.

Steps to reinforce the entire public health system

A general adjustment is made to health budgets to reinforce the entire public health system and ensure that it can meet the needs of poor communities in particular. Allocations are set aside to mitigate the impact of extreme- and multi-drug resistant TB, supporting extended hospitalisation and associated treatment. The funds will cover construction of new units and additional costs of hospitalisation, medicines and laboratory services.

Social cohesion through better-resourced social development sector

Provincial social development departments now have a more sharply defined mandate to provide welfare services to the needy and vulnerable. This includes services related to substance abuse, prevention and rehabilitation, children in conflict with the law, HIV and Aids, and persons with disabilities.

Over the next three years social welfare services will be scaled up to support the development of cohesive communities. Additional funds are allocated to early childhood development centres to increase subsidies for children, and to recruit and train more practitioners in this field. Services to children in conflict with the law are expanded, with the construction of secure care centres and strengthened home- and community-based care. The stipends of home- and community-based care practitioners in the health and social development sectors will be equalised.

Support for labour-intensive programmes under expanded public works

The equitable share also provides for investment in roads, agriculture, economic affairs and tourism. This is aimed at boosting economic development, especially labour-intensive programmes falling under the expanded public works programme. Additional allocations will also support small business development.

Improving the quality of services for which responsibility is shared concurrently between national and provincial government has sometimes been a challenge. In some instances, provincial budgets do not always reflect national priorities, while national departments sometimes introduce priorities which are not well costed. The President's Coordinating Council, which comprises the President and provincial premiers, and the Budget Council have identified improved intergovernmental coordination and cooperative governance as key objectives going forward.

The provincial equitable shares set out in Table 8.3 are determined by means of a redistributive formula that uses mainly demographic data.

Table 8.3 Provincial equitable shares, 2006/07 – 2010/11

	2006/07	2007/08		2008/09	2009/10	2010/11
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Eastern Cape	24 643	27 074	27 344	31 383	35 343	38 446
Free State	9 595	10 745	10 835	12 413	13 932	15 104
Gauteng	23 362	28 217	28 465	33 064	37 638	41 384
KwaZulu-Natal	32 052	37 067	37 425	43 246	49 022	53 678
Limpopo	20 616	22 340	22 523	25 935	29 252	31 869
Mpumalanga	11 227	14 140	14 264	16 436	18 562	20 250
Northern Cape	3 452	4 598	4 638	5 341	6 028	6 571
North West	12 347	11 973	12 087	13 821	15 500	16 790
Western Cape	13 459	15 118	15 282	17 739	20 189	22 214
Total	**150 753**	**171 271**	**172 862**	**199 377**	**225 466**	**246 306**

Conditional grants to provinces

Conditional grants are used to fund national priority programmes aimed at speeding up the realisation of basic social rights.

Conditional grant baseline reaches R47.3 billion in 2010/11

The 2008 MTEF allocations make substantial revisions to selected conditional grants. The conditional grant framework is revised upwards by R2 billion in 2008/09, R3.1 billion in 2009/10, and R7.5 billion in 2010/11, taking total allocations for conditional grants to R38.7 billion in 2008/09, R42.7 billion in 2009/10 and R47.3 billion in 2010/11. Large adjustments are made to the HIV and Aids, national school nutrition programme and infrastructure-related grants. A new grant – the devolution of property rate funds to provinces – is introduced, and the further education and training (FET) colleges recapitalisation grant is phased into the provincial equitable share from 1 April 2009. Table 8.4 shows all the revisions made to conditional grants.

R2.7 billion to be invested in school infrastructure

Findings released by the Department of Education in September 2007 show that there is progress in alleviating South Africa's school infrastructure backlog. The number of overcrowded schools and schools without electricity and water has declined markedly, but the backlog remains large. To accelerate school infrastructure delivery, including replacing unsafe and inappropriate school structures, R2.7 billion is added to the infrastructure grant to provinces. Over R17.8 billion is earmarked in provincial budgets for building schools in the next three years.

Funds to ensure more children receive better-quality meals at school

An amount of R1.8 billion is added to the national school nutrition programme over the MTEF to extend coverage to include more learners, improve the quality of meals, provide meals on more school days and cushion the programme from food inflation. Currently, the programme provides meals to 6 million learners in 18 000 schools. Meals are provided on 170 to 193 school days.

The hospital revitalisation programme receives an additional R2 billion to assist provinces to continue to equip and modernise hospitals. Expenditure for the programme rises to R9.6 billion over the next three years. In addition, provinces are expected to step up their own hospital maintenance budgets.

Table 8.4 Revision to provincial conditional grants allocation, 2008/09 – 2010/11

R million	2008/09	2009/10	2010/11	2008 MTEF Total revisions
Agriculture	**100**	**150**	**250**	**500**
Comprehensive agricultural support programme grant	100	150	250	500
Education	**345**	**493**	**918**	**1 756**
National school nutrition programme grant	345	493	918	1 756
Health	**1 143**	**1 418**	**2 800**	**5 360**
Comprehensive HIV and Aids grant	350	600	1 150	2 100
Forensic pathology services grant	–	70	110	180
Hospital revitalisation grant	600	500	900	2 000
National tertiary services grant	193	248	640	1 080
Housing	**–**	**200**	**2 000**	**2 200**
Integrated housing and human settlement development grant	–	200	2 000	2 200
National Treasury	**400**	**800**	**1 500**	**2 700**
Infrastructure grant to provinces	400	800	1 500	2 700
Total	**1 988**	**3 061**	**7 468**	**12 516**

Spending stepped up on comprehensive HIV and Aids plan

The HIV and Aids programme receives an additional R2.1 billion to meet greater demand arising from the faster take-up of antiretroviral medication, and to speed up the implementation of the comprehensive HIV and Aids plan. Spending on the programme grows to R9.8 billion over the next three years. By 2010/11 spending on the programme will be just under R4 billion per year. The national tertiary services grant is increased by R1.1 billion, particularly to fund diagnostic radiology, telemedicine and oncology. A portion of the increase will be used to cover the cost of personnel funded through this grant.

R500 million to increase agrarian support for emerging farmers

The comprehensive agricultural support programme receives an additional R500 million over the MTEF to extend the provision of agriculture support services, such as extension and advisory services to emerging farmers.

To speed up housing delivery, an additional R2.2 billion is set aside for the integrated housing and human settlement development grant, bringing total spending on this grant to R35.8 billion over the MTEF.

Table 8.5 Conditional grants to provinces, 2007/08 – 2010/11

R million	2007/08	2008/09	2009/10	2010/11
Agriculture	**552**	**584**	**680**	**812**
Agricultural disaster management grant	155	–	–	–
Comprehensive agricultural support programme grant	350	535	628	757
Land care programme grant: poverty relief and infrastructure development	47	49	51	55
Arts and Culture	**163**	**338**	**441**	**494**
Community library services grant	163	338	441	494
Education	**2 017**	**2 546**	**1 995**	**2 536**
Further education and training college sector recapitalisation grant	631	795	–	–
HIV and Aids (life skills education) grant	166	168	177	188
National school nutrition programme grant	1 219	1 583	1 817	2 348
Health	**11 507**	**13 687**	**15 143**	**17 349**
Comprehensive HIV and Aids grant	2 006	2 585	3 276	3 987
Forensic pathology services grant	592	467	492	557
Health professions training and development grant	1 596	1 676	1 760	1 865
Hospital revitalisation grant	1 991	2 883	3 082	3 637
National tertiary services grant	5 321	6 076	6 534	7 303
Housing	**7 650**	**9 853**	**11 731**	**14 223**
Integrated housing and human settlement development grant	7 650	9 853	11 731	14 223
National Treasury	**6 414**	**7 247**	**8 797**	**10 080**
Infrastructure grant to provinces	6 164	7 247	8 797	10 080
Transitional grant: North West	250	–	–	–
Public Works	**837**	**889**	**997**	**1 096**
Devolution of property rate funds grant	837	889	997	1 096
Sport and Recreation South Africa	**194**	**290**	**402**	**426**
Mass sport and recreation participation programme grant	194	290	402	426
Transport	**3 029**	**3 266**	**2 507**	**318**
Gautrain rapid rail link grant	3 029	3 266	2 507	318
Total	**32 362**	**38 699**	**42 692**	**47 334**

Consolidated provincial budget estimates

Preliminary provincial budget estimates, summarised in Table 8.6, reflect the policy priorities outlined here and in Chapter 7, and are in line with in the 2007 *Medium Term Budget Policy Statement*.

Table 8.6 Consolidated provincial expenditure according to function,[1] 2004/05 – 2010/11

R million	2004/05	2005/06 Outcome	2006/07	2007/08 Revised estimate	2008/09	2009/19 Medium-term estimates	2010/11	Annual growth 2007/08–2008/09	Annual growth 2007/08–2010/11
Education	64 783	72 101	79 077	90 416	103 712	114 561	124 644	14.7%	11.3%
Health	40 599	47 116	53 649	62 287	68 694	76 443	84 542	10.3%	10.7%
Welfare	3 650	4 220	5 153	6 298	8 423	9 401	10 656	33.8%	19.2%
Housing and community development	8 654	10 040	12 103	14 488	17 902	20 118	22 721	23.6%	16.2%
Public works, roads and transport	9 643	10 936	10 920	14 208	15 491	17 192	18 400	9.0%	9.0%
Other functions	15 301	17 350	25 660	26 874	33 638	36 996	37 257	25.2%	11.5%
Total expenditure	**142 629**	**161 764**	**186 561**	**214 571**	**247 860**	**274 712**	**298 220**	**15.5%**	**11.6%**
Total revenue	**144 750**	**161 746**	**186 874**	**214 046**	**246 997**	**277 552**	**303 551**	**15.4%**	**12.4%**
Budget balance[2]	**2 121**	**-18**	**313**	**-525**	**-863**	**2 840**	**5 331**		
Economic classification									
Current payments	113 961	127 860	142 462	163 324	186 764	207 314	226 496	14.4%	11.5%
Of which: Remuneration	*87 557*	*95 169*	*104 267*	*119 292*	*135 220*	*149 474*	*162 038*	*13.4%*	*10.7%*
Transfers and subsidies	18 488	21 141	28 518	33 348	39 177	42 653	44 759	17.5%	10.3%
Payments for capital assets	10 181	12 763	15 580	17 899	21 919	24 746	26 965	22.5%	14.6%
Percentage shares of total expenditure									
Social services	76.4%	76.3%	73.9%	74.1%	73.0%	73.0%	73.7%		
Other functions[3]	23.6%	23.7%	26.1%	25.9%	27.0%	27.0%	26.3%		

1. *Medium-term estimates are based on draft budgets of provinces as at 31 January 2008 and may differ from the final budgets tabled by MECs for finance in February.*
2. *A positive number reflects a surplus and a negative number a deficit.*
3. *Includes housing and community development and public works, roads and transport.*

Spending by provinces is expected to be R33.3 billion higher in 2008/09

Taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, spending by provinces is expected to be R33.3 billion or 15.5 per cent higher in 2008/09. Spending is budgeted to grow by 11.6 per cent a year over the MTEF, reaching R298.2 billion in 2010/11.

The following trends emerge from draft provincial budgets:

- By 2010/11 provincial spending will be more than double the 2004/05 level.
- In line with government's commitment to ensure that every child has access to proper schooling, spending by provincial education departments grows 11.3 per cent per year over the next three years.
- To ensure that the public health system responds to community needs, health budgets grow 10.7 per cent annually over the next three years. At R84.5 billion in 2010/11, health spending will be more than double the 2004/05 spending level.
- Social development spending, which is important for sustainable communities and social cohesion, is set to grow from R6.3 billion in 2007/08 to R10.7 billion by 2010/11.
- Consistent with the goal of improving the capacity of the state to deliver core services, and to raise the salaries of school-based

educators, health professionals and social workers, provincial personnel spending increases by 10.7 per cent over the MTEF.

- Provinces plan to spend R73.6 billion on capital assets in roads, health, education and agriculture over the next three years. Expenditure on infrastructure maintenance also grows rapidly.

While preliminary provincial budgets reflect surpluses, it is not clear why some provinces would choose to budget for a surplus. The economic reasons for national government budgeting for a surplus do not necessarily apply at a provincial level. It appears as though the principles of three-year budgeting and forward planning are not yet well embedded in all provinces.

Provinces will table their budgets within two weeks after the tabling of the national budget. Thereafter, provincial departments will table their strategic and annual performance plans, detailing how these budgets will translate into achieving the strategic goals of government.

Revisions to the local government budget framework

Allocations help municipalities meet their obligations for 2010 FIFA World Cup

Local government plays a crucial part in the delivery of basic services and fostering sustainable communities. An additional R14.4 billion is allocated to local government over the medium term to allow municipalities to speed up delivery of household services (water and sanitation, electricity and refuse removal), improve the quality of services and meet their obligations for the 2010 FIFA World Cup.

The focus over the 2008 MTEF is to help poorer municipalities with limited revenue-raising capacity to meet their developmental objectives. As a result, proportionally larger amounts of the municipal infrastructure grant and financial management grant are allocated to such municipalities. These revisions result in national transfers to local government growing 14.1 per cent annually, from R39.2 billion in 2007/08 to R58.1 billion by 2010/11.

Table 8.7 Transfers to local government: revisions to baseline, 2008/09 – 2010/11

	2008/09	2009/10	2010/11	2008 MTEF
	Medium-term estimates			Total
R million				revisions
Equitable share	**1 114**	**711**	**4 649**	**6 474**
Infrastructure transfers	**1 604**	**1 300**	**4 100**	**7 004**
Municipal infrastructure grant	604	1 200	2 000	3 804
Public transport infrastructure and systems grant	–	–	2 000	2 000
2010 FIFA World Cup stadiums development grant	1 000	100	100	1 200
Current transfers	**30**	**588**	**346**	**964**
Financial management grant	30	100	150	280
2010 World Cup host city operating grant	–	488	196	684
Total	**2 748**	**2 599**	**9 095**	**14 442**

Table 8.8 National transfers to local government, 2004/05 – 2010/11

R million	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
		Outcome		Revised estimate		Medium-term estimates	
Equitable share	7 678	9 643	18 058	20 676	24 889	30 156	36 196
of which							
RSC/JSB replacement grant	–	–	*7 000*	*8 045*	*9 045*	*10 107*	*11 035*
Water and sanitation operating subsidy:	133	165	386	622	861	855	570
Equitable share and related	7 811	9 808	18 444	21 297	25 750	31 011	36 766
Infrastructure transfers	6 936	8 053	8 831	16 928	18 018	18 393	20 580
Capacity building transfers	768	654	663	928	430	500	577
Other current transfers[1]	–	–	–	–	–	488	196
Total	**15 515**	**18 515**	**27 937**	**39 154**	**44 198**	**50 392**	**58 119**
Growth rates							
Equitable share and related		*25.6%*	*87.3%*	*14.5%*	*20.4%*	*21.2%*	*20.0%*
Infrastructure transfers		*16.1%*	*9.6%*	*91.7%*	*6.4%*	*2.1%*	*11.9%*
Capacity building transfers		*-14.9%*	*1.5%*	*40.0%*	*-53.7%*	*16.3%*	*15.4%*

1. 2010 World Cup host city operating grant.

The equitable share

Stepped-up support for provision of free basic services

The pattern of strong growth in the local government equitable share allocation is sustained over the next three years. The R6.5 billion added to the equitable share results in it growing 20 per cent a year, from R21.3 billion in 2007/08 to R36.8 billion in 2010/11. Excluding the Regional Services Council/Joint Services Board levy replacement component, the local government equitable share grows at an average annual rate of 25.8 per cent over the MTEF. This represents a significant stepping up of national government's contribution to the cost of providing free basic services to qualifying households.

Community Survey showed major progress in provision of water, sanitation and electricity

The Community Survey released in October 2007 shows that by February 2007, 89 per cent of households had access to water compared with 62 per cent in 1994; 89 per cent of households had access to sanitation compared with 50 per cent in 1994; and 80 per cent of households had access to electricity compared with 51 per cent in 1995.

Supported by the municipal infrastructure grant, 610 293 household connections have been made for water and 324 071 for sanitation since 2004. Through the integrated national electrification programme, 550 247 households have been connected to the national electricity grid since 2004.

Equitable share allocations support municipal budgets

The additional allocations to the equitable share aim to ensure that success in expanding access to basic services to the poor does not place an undue burden on municipal budgets. The local government equitable share formula is used to divide this allocation between the 283 municipalities. This formula is set out in part 3 of the Explanatory Memorandum to the Division of Revenue published with the 2008 Division of Revenue Bill. The memorandum is also available as *Budget Review* Annexure W1 on the National Treasury website.

Infrastructure transfers to local government

R7 billion earmarked for infrastructure-related spending by municipalities

Over and above the R6.5 billion added to the local government equitable share, the 2008 Budget earmarks R7 billion for infrastructure-related spending by municipalities. During the next three years national government will transfer R57 billion to municipalities to ensure that the necessary municipal infrastructure is in place to deliver basic services. In addition, R14.4 billion is set aside for expenditure related to the 2010 FIFA World Cup. Table 8.9 outlines these allocations.

Table 8.9 Infrastructure transfers to local government, 2004/05 – 2010/11

R million	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
		Outcome		Revised estimate		Medium-term estimates	
Direct transfers[1]	**5 298**	**6 286**	**7 447**	**14 954**	**15 725**	**15 652**	**18 193**
Municipal infrastructure grant	4 481	5 436	5 938	8 691	8 657	10 330	11 678
National electrification programme	196	297	391	468	596	897	951
Implementation of water service projects	208	–	–	–	–	–	–
Disaster relief	280	311	–	–	–	–	–
Poverty relief funds	134	–	–	–	–	–	–
Public transport infrastructure and systems grant	–	242	518	974	3 170	2 325	4 465
Neighbourhood development partnership grant	–	–	–	116	407	700	1 000
2010 FIFA World Cup stadiums development grant	–	–	600	4 605	2 895	1 400	100
Municipal drought relief fund	–	–	–	100	–	–	–
Indirect transfers[2]	**1 638**	**1 767**	**1 383**	**1 974**	**2 293**	**2 741**	**2 387**
Water and sanitation operating subsidy	819	904	440	490	269	–	–
National electrification programme	819	863	893	973	1 151	1 421	1 649
Regional bulk infrastructure	–	–	–	300	450	650	689
Backlogs in water and sanitation at clinics and schools	–	–	–	105	210	350	–
Backlogs in the electrification of clinics and schools	–	–	–	45	90	150	–
Neighbourhood development partnership grant	–	–	50	61	123	170	49
Total	**6 936**	**8 053**	**8 831**	**16 928**	**18 018**	**18 393**	**20 580**

1. Transfers made directly to municipalities.
2. In-kind transfers to municipalities.

The municipal infrastructure grant, which augments local governments' own resources, is allocated a further R3.8 billion. Part of the additional allocation is to ensure that each municipality receives a reasonable minimum allocation, and R1.8 billion is set aside for the development of regional bulk services. These programmes should stimulate local economic development and job creation through labour-based infrastructure methods in line with the expanded public works programme.

R6.6 billion for the electrification programme

The national electrification programme is budgeted to spend R6.6 billion to install, rehabilitate and refurbish electricity infrastructure at a local level to ensure sustained supply and eradicate the electrification backlog. Of this amount, R2.4 billion will be spent by municipalities directly and R4.2 billion by Eskom on behalf of municipalities. A further R240 million is made available over the next three years to electrify schools and clinics.

100 neighbourhood development partnership projects expected by next year

The neighbourhood development partnership grant, which seeks to develop community infrastructure and create the platform for private sector investment that improves the quality of life in targeted areas, receives R2.4 billion over the next three years. By the end of 2008 the targeted number of projects under management associated with this grant is expected to reach 100. The project values range between R50 million to very large projects worth R500 million, and the total estimated project value over the next 10 years is R9.2 billion.

2010 FIFA World Cup-related funding

The 2010 FIFA World Cup project covers a wide range of activities, from stadium construction and precinct development to transport, tourism and marketing, health and disaster management, safety and security, and telecommunications.

2010 FIFA World Cup stadium construction ahead of schedule

Stadium construction is progressing rapidly, with all projects ahead of schedule. As a result, an additional R1.9 billion was brought forward from 2008/09 by means of a special adjustments appropriation in 2007. To provide for increased construction costs and to improve project management, a further R1.2 billion is allocated to the 2010 FIFA World Cup stadiums construction grant. By the end of the process, national government will have contributed R9.6 billion towards stadium construction.

Further allocations of R488 million in 2009/10 and R196 million allocated through the 2010 World Cup host city operating grant will support host city preparations for the Confederations Cup in 2009 and the 2010 FIFA World Cup.

R10 billion to be spent on modernising public transport in municipalities

The public transport infrastructure and systems grant receives a further R2 billion to establish, construct and improve new and existing public transport infrastructure and systems in large municipalities, including in the 2010 host cities. The implementation of the public transport systems plan is under way and municipalities are expected to spend R10 billion over the next three years.

Transfers to build capacity in local government

Helping municipalities to plan and budget

Improving the ability of municipalities to plan, budget and provide service delivery is a core government priority. The rapid and sustained increase in transfers to increase capacity in local government is intended to ensure that all municipalities have sufficient resources to perform their functions. This has been complemented by improvements to the efficiency and equity of the transfer system to ensure that resources are channelled to the areas of greatest need, and provided in a way that allows municipalities to be held accountable for how the funds are spent.

Table 8.10 Capacity-building transfers to local government, 2004/05 – 2010/11

R million	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
		Outcome		Revised estimate		Medium-term estimates	
Direct transfers[1]	**699**	**588**	**610**	**875**	**380**	**500**	**577**
Municipal systems improvement grant	182	200	200	200	200	200	212
Restructuring grant	388	255	265	530	–	–	–
Financial management grant: Municipalities	129	133	145	145	180	300	365
Indirect transfers[2]	**69**	**66**	**53**	**53**	**50**	–	–
Financial management grant: DBSA	69	66	53	53	50	–	–
Total	**768**	**654**	**663**	**928**	**430**	**500**	**577**

1. Transfers made directly to municipalities.
2. In-kind transfers to municipalities.

Framework in place for intervention in non-performing municipalities

Government is also stepping up programmes to monitor municipal performance. Furthermore, the legal framework and capacity are now in place for provincial and national governments to intervene in municipalities that systemically fail to meet their service delivery obligations. Negative audit opinions, for example, will now attract the focused and sustained interest of national and provincial government. National and provincial programmes to support municipal capacity development are being aligned under government's flagship Siyenza Manje programme.

In total, government plans to spend R1.5 billion over the next three years to modernise local government budgeting and financial management systems, and to improve compliance with the Municipal Financial Management Act (2003).