E

Explanatory memorandum on the division of revenue

Introduction

The division of revenue between the different spheres of government is among the most important decisions made in the budget process. Section 214 of the Constitution requires that every year an Act of Parliament (Division of Revenue Act) determine the equitable division of resources between the three spheres of government, and the horizontal division among provinces.

The Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) gives effect to the Constitution by spelling out the process of consultation to be followed in enacting the Division of Revenue Bill. It establishes the Budget Council and Budget Forum - the consultative intergovernmental forums for the budget process. Sections 9 and 10(4) of the Act set out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including the process of considering recommendations made with regard to the equitable division of nationally collected revenues.

Section 10(5) of the Act requires that the Division of Revenue Bill be accompanied by an explanatory memorandum detailing how the Bill takes account of:

- Each of the matters listed in Section 214(2)(a) to (j) of the Constitution.
- Any recommendations of the Financial and Fiscal Commission (FFC).
- Any assumptions and formulae used in arriving at the respective shares contained in schedules 1 and 2 of the Bill.

Annexure E fulfils the requirement of the Act set out in Section 10(5). Part 1 sets out how the FFC recommendations have been considered. Part 2 sets out how the Bill and the division of resources take into account the matters listed in Section 214(2)(a) to (j) of the Constitution. Part 3 outlines the fiscal framework that informs the division of resources between the three spheres of government. Part 4 explains the underlying formula and criteria for the division of the provincial equitable share between provinces, as well as for the division of conditional grants. Part 5 sets out the formula and criteria for the division of the local government equitable share and conditional grants between municipalities.

Part 1: Financial and Fiscal Commission recommendations

Introduction

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) require the FFC to make recommendations regarding the equitable division of nationally raised revenue. Under the Act, the FFC must submit its recommendations to the Minister of Finance, Parliament and provincial legislatures at least ten months before the start of the financial year (or at a later date agreed to between the Minister of Finance and the FFC and in accordance with the Act).

The FFC reviewed provincial fiscal transfers in its recommendations, referred to as *Recommendations (2001-2004 MTEF Cycle)*[1], as part of its Project 2001 process. In light of the changes to municipal boundaries through the demarcation process, it did not make any new recommendations with regard to local government.

In keeping with the 3 year MTEF planning cycle, the *Recommendations* focus on the 2001/02 financial year and subsequent MTEF cycle. The FFC released a discussion document with preliminary recommendations in February 2000. These recommendations served as the basis for a consultative process including the Commission, stakeholders and commentators. Stakeholders included various government departments, Parliament and provincial legislatures. The Budget Council discussed the FFC's preliminary report as well as the National Treasury's comments at its annual Lekgotla in May 2000.

The FFC revised its preliminary recommendations thereafter, taking into account issues raised during the consultative process. This culminated in a final report, released in May 2000. The final report presented the FFC's recommendations on a methodology for dividing provincial allocations for the 2001 MTEF. These recommendations provided neither specific allocations, nor all parameters required for the proposed formula. The Budget Council discussed the recommendations in August and made its recommendations to Cabinet.

Outline of the FFC costed norms approach

In its report, the FFC proposes a "costed norms" approach to the division of revenue. This approach attempts to identify specific policy norms or goals for each sector. It seeks to develop an expenditure model to estimate the cost of achieving these policy objectives. Provincial allocations are then defined as the aggregate of the cost estimates across the different expenditure categories in the provincial budgets.

The FFC suggests that the costed norms approach be used to determine both the horizontal division between provinces and the vertical division between the national and provincial spheres – in other words, that the formula be used to approximate for equity (as defined by policy norms) both across the provinces and between the spheres. At present the current formula is applicable only to the horizontal equity across provinces, leaving the vertical division between spheres for Cabinet consideration.

In general, the FFC's costed norms model draws finer distinctions between target beneficiaries and relies on more parameters than the current formula. In terms of the FFC proposal, for instance, a distinction is made in the allocation of the Education Grant between different learners, based on their family income and their residence in rural or urban areas. Each group is then assigned a weight, representing the FFC's best estimate of the relative cost of providing basic education to that group of learners. Similarly, the health formula is based on provincial populations weighted for different utilisation rates according to age and gender differences. These are adjusted for relative poverty, and are coupled with an estimate of the cost of providing primary health care to these groups. The welfare component distinguishes between recipients of six social security grants.

Some of the demographic and income distribution data are available from the 1996 Census and other Statistics SA sources. However, a large proportion of the required data is not available. To overcome data limitations, the FFC has made "benchmark" assumptions with regard to policy priorities and the cost of inputs. In some cases, these assumptions rely on estimates provided by non-governmental sources.

[1] The FFC report *Recommendations (2001-2004 MTEF Cycle)* is available on the web site of the FFC at www.ffc.co.za

While the FFC discusses many of its assumptions in presenting its prototype costed norms formula, some assumptions are left unidentified. The final report does not present any cost estimates based on its prototype formulae. It is therefore difficult to assess with any precision the impact of the FFC's proposals on the allocations between the spheres or between the provinces. However, the FFC recommends that to avoid any disruptions, its approach be phased in over a period of several years.

Although the report proposes detailed formulae for basic services in education, health and welfare, its approach to "other provincial functions" is less definitive. It proposes a "basic element" to fund these activities. It proposes that funds be allocated on the basis of provincial populations weighted by the percentage of households falling below a certain income level (the FFC uses R12 000 as its benchmark assumptions). Through its intergovernmental institutions, Government would determine the size of the basic element, rather than using a formula to estimate the cost of these functions.

The report also recommends an "institutional element", amounting to R79 million for each province, to be top-sliced from the overall provincial share. This sum is intended to cover the estimated cost of the Premier's Office, the Provincial Legislature, and the MEC for each department. This is considerably smaller than the current institutional component.

The FFC further recommends that, as an interim solution, capital grants be allocated to the provinces from the national share to address social infrastructure backlogs. It is unclear how this relates to the fact that, in addition to conditional grants, the current formula also makes allowance for infrastructure backlogs as part of ongoing expenditure in social services, with a portion of spending allocated for instance to the rehabilitation or maintenance of facilities such as schools and clinics.

In its final report, which followed the process of consultation with governmental and legislative stakeholders, the FFC proposed that the costed norms approach be implemented to ensure that the equitable share provides adequately for basic services. The FFC notes that the costed norms approach will take time to develop fully, and suggests appropriate areas of further research.

Response of Government

The Government has not adopted the FFC's costed norms approach in determining the division of revenue between spheres and the provincial equitable share for the 2001/02 budget, and has chosen instead to continue with the current approach. This is in line with the Budget Council resolution.

Although the FFC proposals represent a departure from current practice, they are similar to the proposals for the horizontal division that the FFC first made in May 1996, which Government chose not to adopt. Instead, Government elected to use current proportional distribution formula. Many of government's concerns about the original costed-norms approach remain valid with regard to the FFC's new proposal.

Furthermore, the FFC is not explicit on what it believes to be the shortcomings of the present formula, and how the costed norms formula would address such shortcomings. Clarity is particularly important in this respect, given the fact that all formulae bring with them their own sets of problems, which require redress through other mechanisms (such as unconditional grants), and the possible costs and threat to stability and predictability posed by the replacement of one formula by another.

Government's reservations with regard to the current FFC proposals include the following:

- The lack of appropriate data poses serious practical limitations on the FFC's approach. The FFC acknowledges in its report that crucial data required in order to develop cost estimates are not unavailable. Many of the desired output measures, policy parameters and costs of inputs do not currently exist and may be difficult (if not impossible) to obtain.

- The costed norms approach endorses the notion that provincial education, health and welfare budgets can be calculated at the national level by formula. This undermines the principle of provincial budgetary autonomy, and limits the role of provincial executive committees in making trade-offs, addressing provincial priorities and achieving efficiencies. In addition, such an approach would weaken accountability.
- The costed norms approach could create perverse incentives if provinces or national departments were able to act in a way that increased or distorted funding levels. The FFC acknowledges these potential problems and indicates that it has attempted to include in its formula only factors over which the provinces have no direct control. This seems unrealistic. A costed norms based formula unavoidably reflects cost factors over which provinces do or should have discretion.
- It is not clear how consistency is achieved in attempting to cost policy norms across different sectors. For instance, norms in some sectors may reflect minimum levels of service while others reflect broader service delivery goals. Questions also arise with regard to the uniforming of the standards according to which costs are estimated. A “tough” interpretation could lead to underfunding in one sector, relative to a sector where a “loose” interpretation had been applied. Further research is required in this area, given the difficulty of equating policy goals and norms across sectors.
- A number of process issues around the implementation of a costed norms approach require comment. A key concern is that the policy norms used to develop cost estimates are likely to be ambitious, potentially producing unaffordable expenditure projections. Thus, a costed norms approach would reinforce cost-raising tendencies in public services, while undermining political responsibility for budget priorities and choices. Furthermore, unrealistic expectations of additional funds could distract from the need to address some of the underlying structural issues that hinder improved service delivery and the effective and equitable use of resources more generally.
- The FFC maintains that its costed norms approach could eventually be used to generate, or at least inform, an estimate of the vertical division. At present the vertical division is the outcome of decisions that reflect Government's political priorities. Government does not believe that the FFC recommendations would provide a better process for the vertical division than the MTEF process. Cabinet’s decisions regarding budget allocations are based on influencing policy goals, which are measured in terms of the quality and quantity of services delivered.
- The FFC proposes formulae for only a portion of the social services budgets (that part defined as basic services). Allocations for the remaining social services budgets and all non-social services programmes would be still be determined by political processes. There is also the difficulty of applying the costed norms approach to national departments and local government. As is the case with provincial budgets, some aspects of the national budget may lend themselves to modelling but others (eg, justice, police, defence) would not. In its report, the FFC acknowledges that constructing benchmark norms for all expenditure programmes may not be possible. Government’s concern in this regard is that the process would result in a bias in favour of those services that can be more easily costed.

Areas of agreement between the Government and the FFC

Despite differences over costed norms as a means of allocating funds to provinces, there remains significant agreement between Government and the FFC.

Both Government and the FFC agree that the current budget and planning processes should take more explicit account of the constitutional requirements to provide basic services in education, health, welfare, housing, water and electricity. This concern was one of the prime motivations behind the FFC's proposal to shift to the costed norms approach. The FFC feels that by making basic services an explicit part of the funding and allocation process, these services would receive more attention. While agreeing on the importance of providing for these services, Government believes that it is more appropriate to highlight them as part of the MTEF budget and planning process, particularly at the provincial level.

Both Government and the FFC agree that underlying structural problems have a significant impact on the equitable provision of basic services. These range from availability of appropriately qualified personnel to the inequitable distribution of certain facilities. Government maintains that these issues are key obstacles to the goal of achieving equitable service delivery.

Both Government and the FFC agree that key data for the costed norms projections are unavailable, and that policy norms are often not clear. (Recognising these problems, the FFC limited the range of policy areas covered by its costed norms expenditure models in its final recommendations). In Government's view, this supports the use of costed norms projections only as analytical tools, rather than for making allocations to provinces.

Both Government and the FFC believe there is a need to investigate further some of the data common to both methodologies, such as disability and income data for estimating social security grants.

Government and the FFC also agree that there is a need to develop a framework around capital grants. The FFC further recommends that, as an interim solution, capital grants be allocated to the provinces from the national share to address social infrastructure backlogs. This approach has been adopted for the new MTEF. A new provincial infrastructure grant has been established to complement other capital conditional grants.

Further, Government appreciate the potential benefits of the costed norms approach as a tool for analysing provincial budgets.

Conclusion on FFC proposals

While welcoming the proposals, and encouraging the use of costed norms as an analytical tool to help analyse specific sectoral budgets, Government has decided not to adopt the costed norms approach for the following main reasons:

- Changing the current formula (which was adopted with the support of the FFC) has the potential to destabilise provincial budgets if the formula results in significant changes to provincial allocations.
- A bottom up, iterative approach is not an appropriate way to determine budgetary priorities, which requires political judgement in making difficult trade-offs.
- The application of the costed norms approach only to health, education and welfare would introduce a bias against other provincial functions, as well as against the local and national spheres.
- The data required for estimating the cost of providing services is unavailable.

Part 2: Meeting constitutional requirements

Section 214 of the Constitution requires that the annual Division of Revenue Act only be enacted after account has been taken of the ten factors set out in sub-section 214(2) (a) to (j), including:

- The national interest, any provision for debt, the needs of the national government and emergencies.
- The allocation of resources to provide basic services and meeting developmental needs.

- The fiscal capacity and efficiency of the provincial and local spheres.
- The reduction of economic disparities.
- The promotion of stability and predictability.

This section gives effect to section 10(5)(a) of the Intergovernmental Fiscal Relations Act. It sets out how the ten factors are taken into account in determining the division of revenue.

This memorandum also goes beyond the legal requirements, by providing information on the local government equitable share, and in providing more information on all conditional grants. The Bill facilitates the process of collecting information on the criteria for allocation for all conditional grants.

National interest and the division of resources

A stable macroeconomic environment, stronger economic growth, lower unemployment, reduced crime and a more efficient public service contribute to higher standards of living for all South Africans. Since programmes to meet these goals cut across all three spheres of government, and often across departments, they are most appropriately co-ordinated by national government. Broad-based programmes in the national interest introduced by Government since 1994 include the prioritisation of the social sectors (education, health and social welfare), nutrition, housing, municipal infrastructure, rural development, and the "working for water" campaign. Poverty alleviation and HIV/Aids cuts across departmental programmes and sectors.

Government has also shifted significant resources into the protection services cluster, with priority given to the integrated justice system. Government also recognises that South Africa has a growing role to play in maintaining peace and security in the region. This results in a substantial upward adjustment for defence in order to accommodate the arms procurement programme.

Provision for debt costs

The total resources shared between the three spheres of government include the proceeds of borrowing by national government. The bulk of that borrowing is in the form of savings of South African citizens. The remainder is in foreign savings. In recognition of Government's obligation to repay those citizens and to protect the capacity to borrow at the lowest rates, the costs of servicing debt are met before resources are shared. Interest on government debt is a first charge on revenues. Lower interest rates and the retiring of debt from the proceeds of privatisation has resulted in a significant reduction in state debt costs as a percentage of GDP. These savings release funds for expenditure on other priorities. In addition, the commitment to fiscal discipline will contribute to lower debt service costs in the future.

National needs and interests

The Constitution assigns exclusive and concurrent powers to each sphere of government. The national government is exclusively responsible for those functions that transcend provincial boundaries, including protection services, economic services and foreign affairs. Key priorities on the national budget are the strengthening of the integrated justice sector, infrastructure development and rehabilitation, restructuring public enterprises and programmes to alleviate poverty and enhance job creation. The national sphere is also responsible for meeting the contractual and statutory commitments of the state and for providing transversal systems of governance, including tax administration and financial information systems. Some provincial or local functions still reside with national departments. Many of these functions (such as water and sanitation services) are gradually being shifted to the sphere responsible. National government is responsible for policy development, regulation and monitoring in functions shared with provincial and local government.

Provincial and local basic services

Many of the changes highlighted in the 2001 Budget specifically consider functions such as the provision of the child support grant, free basic municipal services and building the capacity to cope with the impact of HIV/Aids.

Sub-national governments have significant autonomy over allocating resources to meet basic needs and to respond to provincial and local priorities. The Bill provides for significant increases to the equitable share to provinces and local government. This enables them enhance their provision of basic services like school education, primary health, welfare grants and a minimum level of free water and electricity. Grants such as the Central Hospitals Grant, Housing Grant and Supplementary Grant enable provinces to perform specific functions like academic hospital services and housing.

Fiscal capacity and efficiency

Fiscal capacity refers to the ability of each sphere to raise revenue to cover expenditures. The Constitution assigns the primary sources of government revenue to national government. Local governments finance the bulk of their expenditure from property rates, user charges and fees. This means that national government receives more revenue than it requires to meet its obligations while the local sphere is only marginally dependent on nationally raised revenue. The provincial sphere, however, is highly dependent on transfers as its expenditure responsibilities exceed provincial sources of own revenue. To compensate for this imbalance, nationally raised revenue is shared between the spheres, with provinces receiving the largest share.

Options for increasing provincial fiscal capacity through own revenue sources continue to be explored. Section 228 of the Constitution requires an Act of Parliament to regulate provincial tax powers. The process of extending tax powers to provinces is underway.

All three spheres are strengthening financial management capacity to improve fiscal efficiency. The implementation of the Public Finance Management Act (PFMA), and programmes funded from the Supplementary Grant for Financial Management, should help to promote expenditure efficiency. The programme focuses on appointing qualified personnel, training financial managers and improving reporting and oversight procedures. Several provinces are establishing or expanding internal audit units to improve control over expenditure. Provinces are also in the process of appointing chief financial officers (CFO) in line with the requirements of the PFMA. At local government level, the Financial Management Grant will assist municipalities in modernising budgeting, management and upgrading financial management capacity. The Local Government Finance Management Bill is also expected to take effect next year.

Although actual measurement of fiscal capacity and efficiency is not possible at this stage, the annual *Intergovernmental Fiscal Review* does attempt to provide information that facilitates comparisons between budgets in the provincial and local spheres.

Developmental needs

Development needs are considered in both the equitable share formulae for provincial and local government and in specific conditional grants. The health component of the provincial equitable share formula distributes resources towards poorer provinces through the higher weighting of persons without access to medical aid. The welfare component includes a poverty adjustment that captures the target population for social grants. The backlog component in the provincial equitable share formula reflects the need for basic infrastructure in rural areas, as well as maintenance backlogs within the health and education sectors.

The needs of the rural poor also receive priority in education, health and welfare budgets, which are complemented by the Water and Sanitation Programmes in rural and small communities. The Consolidated Municipal Infrastructure Programme funds infrastructure for low-income urban and rural communities. Following the Presidential Job Summit, funds are provided for projects that focus on job creation and poverty alleviation. These include a community-based public works programme, a local tourism infrastructure programme and a flagship programme to promote employment for women with young children.

Through the establishment of the National Skills Fund, Government adopted a further education and training policy aimed at broadening the skills base. The skills development levy which allocates funds to the National Skills Fund, mobilises substantial funds for human resource development. The National Skills Fund provides training initiatives for the unemployed and supports provincial training schemes and centres.

Economic disparities

Economic disparities exist between and within provinces. The equitable share formula recognises that the provinces have different demographic and economic profiles and markedly different levels of economic development. The equitable share formula is therefore redistributive towards poorer provinces.

The formulae and criteria used by national departments to distribute grants among provinces are also biased in favour of the poor. For example, the allocation of the Education Quality Enhancement grant redistributes resources to poorer provinces with a higher proportion of under-resourced schools.

The Provincial Infrastructure Conditional Grant will significantly enhance the capacity of provinces to deal with economic disparities. The grant is divided in terms of the average of the equitable share and backlog ratios, thus directing funds to poorer provinces, without disadvantaging wealthier provinces.

Obligations in terms of national legislation

While the Constitution confers significant autonomy on provincial governments to determine provincial priorities and allocate provincial budgets, national government retains responsibility for policy development and for monitoring implementation within concurrent functions. Although the equitable share allocations and other transfers allow provinces and local government discretion, national policies create mandates that must be accommodated. For example, criteria for social security grants are determined nationally, while the costs are borne by provinces. The budget process allows for these norms and standards to be incorporated into sub-national budgets. Similar examples can be found in education, health, traffic management, road maintenance and with reference to archives.

Conditional grants also provide funding for national priorities that are implemented by provincial or local government. These include grants for housing and integrated nutrition.

Predictability and stability

Government has resolved that the equitable shares for a given year will be based on estimates of nationally raised revenues, as announced in the budget. The Division of Revenue Bill this year indicates a three-year allocation, although only one year is voted for. Allocations will not be adjusted downwards unless exceptional circumstances lead to a downward revision of the macroeconomic framework or an under-collection of the targeted revenue. The Bill also obligates all conditional grants to be allocated by province and municipality for a three-year period. Furthermore, the Division of Revenue Bill specifies that all allocations must be transferred according to a payment schedule. Thus, at the beginning of the financial year, provinces and local governments are assured of the resources they will receive and know the dates on which the allocations will be transferred. The Bill also enables provincial and local government to account for all transfers from the national government. Greater certainty of revenues improves the quality of budget planning and expenditure projections in all spheres of government.

Need for flexibility in responding to emergencies

Although stable and predictable allocations encourage fiscal discipline and improve planning and cash management, Government needs to be able to respond to changing circumstances and to accommodate shifts in priorities. The contingency reserve provides a cushion against these uncertainties. It gives Government the flexibility to shift expenditures in response to emergencies in the coming year, or to change priorities in the outer years, without compromising existing programmes. Some provinces have also created contingency reserves to increase flexibility in provincial budget planning.

Part 3: Fiscal Framework

Table E1 presents the revised medium term macroeconomic framework for 2001 Budget.[2]

Table E1 Medium-term macroeconomic assumptions

	2000/01		2001/02		2002/03		2003/04
	2000 Budget	2001 Budget	2000 Budget	2001 Budget	2000 Budget	2001 Budget	2001 Budget
Gross domestic product (R billion)	885,2	897,9	958,2	987,2	1036,7	1069,3	1154,9
Real GDP growth	*3,6%*	*3,1%*	*3,2%*	*3,7%*	*3,3%*	*3,5%*	*3,3%*
GDP inflation	*5,5%*	*7,3%*	*4,9%*	*6,0%*	*4,8%*	*4,7%*	*4,6%*
National Budget Framework							
Revenue (R billion)	210,4	213,4	227,4	233,4	243,6	252,9	273,1
Percentage of GDP	*23,8%*	*23,8%*	*23,7%*	*23,6%*	*23,5%*	*23,6%*	*23,6%*
Expenditure (R billion)	233,5	235,0	251,5	258,3	266,7	277,3	297,5
Percentage of GDP	*26,4%*	*26,2%*	*26,2%*	*26,2%*	*25,7%*	*25,9%*	*25,8%*
Budget deficit (R billion)	23,1	21,7	24,1	24,9	23,1	24,5	24,4
Percentage of GDP	*2,6%*	*2,4%*	*2,5%*	*2,5%*	*2,2%*	*2,3%*	*2,1%*

The macroeconomic framework sets out the growth assumptions and policy targets on which the fiscal framework is based. Table E2 sets out the impact of these policy decisions on the division of revenue.

Before resources can be divided, provision must be made for national commitments such as debt service costs and a contingency reserve. Debt servicing obligations of R48,1 billion, R49,7 billion and R51,0 billion are projected for the three MTEF years, and the contingency reserve amounts to R2 billion, R4 billion and R8 billion. Once these allocations are deducted, the total to be shared between the three spheres amounts to R208,1 billion, R223,6 billion and R238,5 billion over the

[2] Chapters 2 and 3 of the Budget Review present a detailed analysis of the revised macroeconomic forecasts and fiscal framework.

three MTEF years. This pool of revenue is available for sharing between national, provincial and local spheres.

Table E2 Division of revenue between the spheres of government

	2000/01		2001/02	2002/03	2003/04
R million	2000 Budget[1]	Revised estimates	Budget	Medium-term estimate	
National allocation	75 212	74 414	84 287	89 955	95 432
Provincial allocation	106 037	108 736	117 386	126 563	135 221
Equitable share	*94 408*	*96 186*	*104 136*	*112 560*	*120 215*
Conditional grants	*11 629*	*12 551*	*13 250*	*14 003*	*15 006*
Local government allocation	3 713	5 712	6 506	7 155	7 849
Equitable share	*2 330*	*2 330*	*2 618*	*3 002*	*3 551*
Conditional grants	*1 383*	*3 382*	*3 888*	*4 153*	*4 298*
Allocated expenditure	**184 962**	**188 863**	**208 179**	**223 672**	**238 502**
Plus:					
Debt service costs	46 490	46 186	48 138	49 651	51 022
Contingency reserve	2 000		2 000	4 000	8 000
Total expenditure	**233 453**	**235 048**	**258 318**	**277 323**	**297 524**
Percentage of shared total	**100**	**100**	**100**	**100**	**100**
National allocation	*40,7%*	*39,4%*	*40,5%*	*40,2%*	*40,0%*
Provincial allocation	*57,3%*	*57,6%*	*56,4%*	*56,6%*	*56,7%*
Local government allocation	*2,0%*	*3,0%*	*3,1%*	*3,2%*	*3,3%*

[1] For comparative purposes, local government transfers have been shifted from provincial share to the local government share

The division of resources between the three spheres is determined primarily by the initial baseline allocations in the 2000 Budget (reflecting current priorities), together with the additional priorities identified for the additional resources in the framework. Hence, changes are generally restricted to the margin. The division of revenue between spheres of government is determined by Cabinet, and is informed by recommendations of the Budget Council, the Budget Forum, the Ministers' Committee on the Budget and the Financial and Fiscal Commission (FFC).

The additional allocations are made available from revisions to the framework arising from stronger growth, higher inflation, the baseline contingency reserve, and savings on debt service costs. The new priorities and pressures identified over and above the current priorities are:

- Increasing the take-up of the child support grant and the impact of HIV/Aids on social services.
- Poverty alleviation programmes, including social security and provision of free basic services to the poor.
- The significant cost implications arising from the new demarcation of municipalities.
- Increasing infrastructure spending in order to redress the backlogs in maintenance, rehabilitate and expand the infrastructure base, and to stimulate investment and economic growth.
- The need for targeted interventions aimed at improving the efficiency of the criminal justice system.

These new priorities determine how the additional allocations are to be divided. These funds flow towards the sphere responsible for the prioritised functions. The impact of these policy decisions on the division of revenue is shown in Table E2 above.

The revised budget framework provides for additional spending of R10,2 billion in 2001/02 and R16 billion in 2002/03 compared with the estimates projected for these years in the 2000 Budget.

Over half of the additional resources was allocated to the provinces, in recognition of the challenges they face in delivering social services, building and maintaining economic infrastructure, employment creation, promoting rural development and coping with HIV/Aids. Local government, which must manage the amalgamation of various local authorities and provide for free basic services, gets a larger slice of additional revenue than its baseline proportion. Although the additional allocation to local government is small, the increases in the allocations are significant, relative to the overall level of resources transferred to that sphere.

The national share increases from 39,4 per cent in 2000/01 to 40,5 in 2001/02 and declines marginally to 40,0 per cent in 2003/04. The share dedicated to local government also rises from 3,0 per cent in 2000/01 to 3,3 per cent in 2003/04. The provincial share declines correspondingly, from 57,6 per cent in 2000/01 to 56,4 per cent in 2001/02 and increases marginally to 56,7 per cent 2003/04.

Powers and functions

Functions are assigned to the three spheres of government in schedules 4 and 5 of the Constitution. A system of concurrent or joint responsibilities applies between national and provincial governments for functions like school education, health, welfare, housing, agriculture and urban and rural development. This, in practice, means that national government determines policy and regulates compliance, while provincial governments are responsible for implementation. Exclusive functions for provinces include provincial roads and traffic, ambulance services, planning responsibilities, abattoirs, liquor licences etc.

Municipal functions include user fee services like electricity and gas reticulation, water and sanitation services (potable water supply systems, domestic waste-water and sewage disposal), and public funded services like stormwater management, refuse removal, municipal public transport, fire-fighting services, urban streets and street lights.

This leaves national government largely responsible for policy and regulatory functions over school education, health, welfare, housing and agriculture, resulting in small budgets for these departments. Only education has a large budget, but this is for transfers to institutions of higher education.

The most significant national functions from a budget perspective are those where the implementation responsibility resides with the national government.

Over half the national government spending (after the equitable share, conditional and other grants and programmes to provinces and municipalities are excluded) is in the protection services (police, justice, prisons and defence). The other significant budget items are education (for higher education), public works, transport (bus subsidies, rail, national roads), trade and industry (for trade facilitation and technology advancement), funding of the South African Revenue Services (SARS) and water affairs. Other departments and agencies with responsibilities traditionally associated with national government include Foreign Affairs, Home Affairs, science councils, Land Affairs, Labour, Environment and Tourism, Minerals and Energy and Communications. These have relatively smaller, but significant, budgets.

The National Budget 2000 Appropriation Bill appropriates the 2001/02 national allocation in Table E2, as well as conditional grants to provinces and municipalities for the same year, and the debt servicing amount (as a direct charge). The national allocation in Table E2 therefore excludes conditional grants and debt serving, but includes grants-in-kind and agency or transitional programmes like bus subsidies.

Part 4: Provincial Allocations

The Constitution entitles provinces to a share of nationally raised revenue. National transfers to provinces comprise more than 96 per cent of provincial revenues, of which 88,7 per cent is through the equitable share (see Table E3). The remaining 11,3per cent flows through conditional grants. Provinces raise less than 4 per cent of their revenues from own sources.

Table E3 Total transfers to provinces, 2001/02

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	17 965	1 420	19 385
Free State	7 018	890	7 908
Gauteng	15 848	3 473	19 321
KwaZulu-Natal	21 034	2 245	23 280
Mpumalanga	7 206	599	7 805
Northern Cape	2 533	224	2 757
Northern Province	14 010	1 100	15 111
North West	8 761	699	9 460
Western Cape	9 762	1 997	11 760
Unallocated	0	600	600
Total	**104 136**	**13 251**	**117 387**

Provincial equitable share

The provincial equitable share allocation is used to fund the bulk of public services rendered by provinces. The equitable share amounts to R104,1 billion in 2001/02, R112,6 billion in 2002/03, and R120,2 billion in 2003/04. The equitable share is divided between provinces (referred to as the horizontal division) using the provincial equitable share formula. This section explains the formula.

The equitable share formula comprises seven components that attempt to capture the relative demand for services between provinces and to adjust for particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. The components are:

- An education share based on the average of school-age population (ages 6–17) and the number of learners in schools.
- A health share based on the proportion of the population without access to medical aid funding.
- A social security component based on the estimated number of people entitled to social security grants – the elderly disabled and children – weighted with a poverty index derived from the 1995 Income and Expenditure Survey.
- A basic share derived from each province’s share of the total population of the country.
- An institutional component divided equally among the provinces to reflect the costs of running a provincial government.
- A backlog component based on the distribution of capital needs as captured in the Schools Register of Needs, the audit of hospital facilities and the share of the rural population.
- An economic output share based on the distribution of total remuneration in the country.

Table E4 shows the current structure and distribution of the shares by component, and the target shares to be reached by 2003/04. The elements of the formula are neither indicative budgets nor guidelines as to how much should be spent on those functions. Rather, the components are weighted broadly in line with expenditure patterns to provide an indication of relative need.

Table E4 Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institutional	Backlog	Target shares
Weighting	*41,0*	*19,0*	*17,0*	*7,0*	*8,0*	*5,0*	*3,0*	*100,0*
Eastern Cape	18,5	17,0	19,6	15,5	6,5	11,1	20,6	16,9
Free State	6,3	6,5	7,1	6,5	5,3	11,1	5,7	6,6
Gauteng	12,3	14,7	13,9	18,1	41,6	11,1	5,1	15,5
KwaZulu-Natal	22,1	21,7	19,6	20,7	17,0	11,1	22,9	20,6
Mpumalanga	7,3	7,2	6,5	6,9	4,9	11,1	8,5	7,2
Northern Cape	1,9	2,0	2,2	2,1	1,7	11,1	1,3	2,4
Northern Province	15,7	13,3	13,7	12,1	3,0	11,1	22,9	13,6
North West	8,0	8,6	8,7	8,3	5,7	11,1	9,4	8,3
Western Cape	7,9	8,9	8,8	9,7	14,4	11,1	3,7	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Education component

The education component targets primary and secondary schooling, which accounts for roughly 90 per cent of provincial education spending. Both the population of school going age and enrolment numbers are used to reflect the demand for education services. The school-age cohort, ages 6-17, is double weighted, reflecting Government's desire to reduce out-of-age enrolment. The enrolment figures have not been updated since the 1999 Budget.

Table E5 Calculation of education component

Thousands	Enrolment	School-age (6–17)	Weighted share (%)
Weighting	*1*	*2*	
Eastern Cape	2 295	2 010	18,5
Free State	808	680	6,3
Gauteng	1 400	1 394	12,3
KwaZulu-Natal	2 812	2 377	22,1
Mpumalanga	924	789	7,3
Northern Cape	202	223	1,9
Northern Province	2 043	1 665	15,7
North West	946	896	8,0
Western Cape	905	895	7,9
Total	**12 335**	**10 930**	**100,0**

Health component

The health component addresses the need for provinces to deliver primary and secondary health services. As all citizens are eligible for health services, the provincial shares of the total population form the basis for the health share. The formulation of the health component recognises that people without medical aid support are more likely to use public health facilities, and are therefore weighted four times higher than those with medical aid support. This implies that the uninsured account for 95 per cent of the usage of public health facilities. The proportions of the population with and without access to medical aid are taken from the 1995 October Household Survey and applied to the census figures.

Table E6 Calculation of health component

Thousands	With medical aid	Without medical aid	Weighted share (%)
Weighting	*1*	*4*	
Eastern Cape	510	5 793	17,0
Free State	467	2 166	6,5
Gauteng	2 958	4 390	14,7
KwaZulu-Natal	1 103	7 314	21,7
Mpumalanga	392	2 409	7,2
Northern Cape	175	665	2,0
Northern Province	376	4 554	13,3
North West	457	2 897	8,6
Western Cape	1 127	2 830	8,9
Total	**7 566**	**33 018**	**100,0**

Welfare component

The welfare component captures provinces' responsibility for providing social security grants. The constituent parts reflect the target populations of social security payments, weighted by the distribution of expenditure for each type of grant. For example, the bulk of social security payments are old-age pensions. Means-testing of grants is reflected through an income adjustment based on the provincial share of the population in the lowest two quintiles of the income distribution. This information was drawn from the 1995 Income and Expenditure Survey, which has not been updated. Data from the Department of Welfare on actual expenditure by grant type indicate that the current weightings are still appropriate. Nevertheless, these weights do not make explicit provision for the child support grant, although the vertical division of revenue takes this into account.

Table E7 Calculation of the welfare component

Percentage	Old age	Disability	Child care	All grants	Income adjustment	Weighted share
Weighting	*65,0*	*25,0*	*10,0*	*75,0*	*25,0*	*100,0*
Eastern Cape	19,1	15,5	17,4	18,0	24,3	19,6
Free State	6,2	6,5	5,7	6,2	9,6	7,1
Gauteng	15,7	18,1	14,3	16,2	7,2	13,9
KwaZulu-Natal	19,8	20,7	21,7	20,2	17,6	19,6
Mpumalanga	5,9	6,9	7,3	6,3	7,1	6,5
Northern Cape	2,1	2,1	2,0	2,1	2,6	2,2
Northern Province	13,0	12,1	14,8	13,0	15,8	13,7
North West	7,8	8,3	8,4	8,0	10,7	8,7
Western Cape	10,4	9,7	8,4	10,0	5,2	8,8
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Economic activity component

The economic activity component is a proxy for provincial tax revenue, directing a proportion of nationally collected revenue back to its source. It also reflects costs associated with economic activity, such as maintenance of provincial roads. The best indicator for economic activity in a province is the Gross Geographic Product. In 1999, the distribution of employee remuneration replaced provincial Gross Geographic Product (GGP) figures, since remuneration comprises roughly 60 per cent of provincial GGP and the GGP figures had not been updated since 1994. For 2001, Government decided not to adjust this component of the formula pending publication of new GGP data. The latest remuneration data tend to reflect unstable trends. The continuing absence of GGP data raises concerns about the accuracy of data in the economic activity component.

Table E8 Economic activity shares, 2001 Budget

Percentage	**Share of Remuneration**
Eastern Cape	6,5
Free State	5,3
Gauteng	41,6
KwaZulu-Natal	17,0
Mpumalanga	4,9
Northern Cape	1,7
Northern Province	3,0
North West	5,7
Western Cape	14,4
Total	**100,0**

Basic component

In 1999, the basic component was split into a basic share distributed by population and a backlog component. The backlog component incorporates estimates of capital needs as drawn from the Schools Survey of Needs and the 1998 MTEF health sectoral report on hospital rehabilitation. The backlog component also incorporates a rural factor, in keeping with Government's focus on rural development. As no new information was available regarding its sub-components, the backlog component remained unchanged.

Table E9 Calculation of backlog component

Percentage	Health	Education	Rural	Weighted share
Weighting	*18,0*	*40,0*	*42,0*	*100,0*
Eastern Cape	16,3	22,0	21,3	20,6
Free State	3,8	7,8	4,4	5,7
Gauteng	10,8	6,3	1,2	5,1
KwaZulu-Natal	16,0	23,5	25,5	22,9
Mpumalanga	9,2	7,5	9,1	8,5
Northern Cape	1,2	1,2	1,3	1,3
Northern Province	27,5	20,4	23,3	22,9
North West	9,1	7,5	11,6	9,4
Western Cape	6,1	3,9	2,3	3,7
Total	100,0	100,0	100,0	100,0

Institutional component

The institutional component recognises that some costs associated with running a government and providing services are not directly related to the size of a province's population. It is therefore evenly distributed between provinces, as was the case last year. It constitutes 5 per cent of the total equitable share, of which each province gets 11,1 per cent (as shown in table E4).

The phasing-in of the formula

The formula determines the equitable share for each province. In 1999/00, two years after the formula was introduced, data for the 1996 census was published. The data reflected demographic profiles that were different from the preliminary census results used in the formula. Given the need to ensure stability in provincial budgets, it was agreed that revisions to the formula should be phased in over five years, from 1999/00 to 2003/04. The target date of 2003/04 has been retained, so that the formula is fully implemented at the end of the 2001 MTEF cycle. Table E10 shows the phasing.

Table E10 Phasing in the equitable share, 2000 Budget

Percentage	1999/00 base	2000/01	20001/02	2002/03	2003/04 target
Phasing		*Year 1*	*Year 2*	*Year 3*	*Year 4*
Eastern Cape	17,6	17,4	17,3	17,1	16,9
Free State	6,8	6,8	6,7	6,7	6,6
Gauteng	14,9	15,1	15,2	15,4	15,5
KwaZulu-Natal	19,8	20,0	20,2	20,4	20,6
Mpumalanga	6,7	6,8	6,9	7,0	7,2
Northern Cape	2,4	2,4	2,4	2,4	2,4
Northern Province	13,3	13,4	13,5	13,5	13,6
North West	8,6	8,5	8,4	8,3	8,3
Western Cape	9,8	9,6	9,4	9,2	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Revisions of the formula for new or updated data

For the 2001 Budget, the following new data sets are available, which could have been used to update the formula:

- Education – data from the 1999 snap survey of school enrolment. Compared with the 1997 data, the 1999 snap survey shows no change in the total number of learners, but a significant increase in number of learners in Gauteng, with a moderate increase in Western Cape, and a sharp decline in the Northern Province.
- Health – medical aid membership data published recently fluctuate widely. Although the results of the 1995 October Household Survey (OHS) currently used in the formula show patterns similar to those of the recently published OHS'99, they differ from those of OHS'98. Consequently, the OHS'95 data has been retained.

The Budget Council decided not to use updated data, after consideration of the impact that these changes would have in the allocation amongst provinces. This decision also reflected a lack of confidence in the data sets. In broad terms, it appears that revisions for these sets of data would swing the baseline allocations at the expense of poorer provinces, especially in the outer years. The Budget Council preferred a five-yearly revision for purposes of the census and the Income and Expenditure Survey, if they show significant changes in the trends. The option of not updating the formula based on the annual data would ensure that there is stability in provincial MTEF allocations.

Adjustments for component weights

The current weights applied to the social service components in this year's budget are based on the three most recent years of expenditure data, updated annually. Current spending patterns suggest that it may no longer be appropriate to continue with this approach, since function shifts such as housing, have changed the composition of expenditure. In future, technical changes to the base, rather than changes in the social service spending, will determine the weights of the social service components. Changes to the weights will remain an explicit policy decision, and will remain fixed unless a policy change implies that a significant shift in the distribution of funds was required.

Conditional grants to provinces

Schedules 3 and 4 of the Division of Revenue Bill present the conditional grants to provinces. Conditional grants are a smaller but significant portion of provincial revenue. These grants were introduced in 1998/99 to support national priorities, particularly in the social services sector. In particular, conditional grants are used in order to:

- Enable national priorities to be provided for in the budgets of other spheres.
- Promote national norms and standards.
- Compensate provinces for cross border flows and inter-provincial benefits.
- Effect transition by supporting capacity-building and structural adjustments.
- Address backlogs and regional disparities in social infrastructure.

Some conditional grants have been implemented successfully. However, problems have arisen with the flow and spending of other grants. These problems resulted in rollovers in some grants at the national level and slow spending at the provincial level. There has also been an increase in the number of small grants in the system. This has subsequently increased fragmentation of funding and has placed a disproportionate administrative burden for conditional grants on the provinces. Some of the small grants have been amalgamated into the Supplementary Grant in 2001[3].

The Division of Revenue Act is revised annually to allow for reforms aimed at improving processes and systems used in the administration of conditional grants. The revisions are aimed at promoting advance planning, improving transparency and enhancing accountability by clarifying the responsibilities of national departments and provincial officers. A framework for the consolidation and streamlining of grants and improvement of their effectiveness is being finalised for implementation in the 2002 MTEF.

Table E11 provides a summary of conditional grants by sector for 2001/02, and the allocation between provinces. Of the total conditional grants allocation in 2001, the largest allocation is made to the health sector (R5,9 billion), followed by the Department of Housing (R3,3 billion), and the National Treasury (R3,0 billion). The Education and Welfare Departments administer relatively small, but important grants for the improvement of financial management in these sectors. Central hospital and professional training are the largest health grants. Four provinces, Gauteng, KwaZulu-Natal, Western Cape and Free State, benefit most from the Central Hospitals Grant owing to the structure of their health departments. Significantly, they provide highly specialised services to all citizens. Other health grants flow mainly to poorer provinces.

Table E11 Conditional Grants to Provinces for 2001/02

R'000	Health	Supplementary[1]	Infrastructure	Housing	Education	Welfare	Total
Eastern Cape	322 926	386 431	147 275	506 811	55 037	2 142	1 420 622
Free State	397 424	177 561	48 342	246 253	18 743	2 142	890 465
Gauteng	2 308 304	337 611	80 860	707 831	36 592	1 642	3 472 840
KwaZulu-Natal	909 684	455 029	170 447	642 647	65 747	2 142	2 245 696
Mpumalanga	148 043	153 003	61 236	213 355	21 718	2 142	599 497
Northern Cape	65 023	55 788	29 411	66 475	5 653	2 142	224 492
Northern P.	266 759	292 471	143 369	344 787	46 707	6 600	1 100 693
North West	157 817	182 336	69 536	263 735	23 800	2 142	699 366
Western Cape	1 381 501	207 647	49 524	334 064	23 503	1 642	1 997 881
Total	**5 957 481**	**2 247 877**	**800 000**	**3 325 958**	**297 500**	**22 736**	**12 651 551**

[1]Both supplementary and infrastructure grants are administered by the National Treasury. Flood rehabilitation grant is not included in the allocations.

Overview of conditional grants to provinces by department

Appendix E1 provides a detailed description of each grant, including purpose, outputs, conditions and monitoring mechanisms. Where some of the details are missing, departments are expected to submit information by 30 April 2001. The National Treasury will publish this information.

[3] Chapter 3 of the 2000 Intergovernmental Fiscal Review gives a detailed analysis of performance of conditional grants since they were introduced in 1998/99.

Health grants

The health grants amount to about R5,9 billion in 2001/01, and increase to R6,3 billion by 2003/04. They constitute about 47 per cent of the total conditional grants to provinces. The health grants include five hospital grants (Central Hospital, Professional Training and Research, Hospital Rehabilitation, Redistribution of Specialised Health Service and Construction Grants), the Integrated Nutrition Programme (INP) and allocations for HIV/Aids. The hospital grants are aimed at supporting reforms in the hospital sector.

The Department of Health is currently reviewing all its conditional grants. The current MTEF allocations do not make any significant changes to health grant funding levels, pending the outcome of the reviews. Similarly, the division between provinces has not changed significantly. The Department of Health is expected to provide a strategic plan for the rationalisation and distribution of hospitals, which will then inform provincial strategic and implementation plans for the 2002 MTEF.

The central hospitals and health professional training grants provide over R.4,5 billion towards the recurrent costs of central hospitals. These grants are for services that may be regarded as allocated functions, for which funding cannot be withdrawn without a substantial and unacceptable impact on service delivery. The health review is expected to set the medium- to long-term restructuring goals for these grants.

The allocation for hospital rehabilitation grant is R500 million in 2001/02, increasing to R543 million in 2003/04. There is a reduction in the 2001/02 allocation to Eastern Cape compared with the 2000/01 allocation, and relative gains to other provinces like Gauteng. This is because Eastern Cape received more than its share in 2000/01, as funds were moved to the Eastern Cape from slower spending provinces, on the basis of its demonstrated spending capacity. An adjustment for this is made in 2001/02, and in the outer years.

The Redistribution of Specialised Health Services grant also has a significant capital component. The grant is used for the acquisition of specialist equipment, specialist training, and as an incentive for specialists to relocate to poorer provinces. In 2001/02, the allocation for this grant amounted to R182 million. It increases to R197 million in 2003/04.

A new allocation amounting to R50 million, R70 million and R90 million in the three MTEF years has been made as national government’s contribution towards the costs of construction of the Pretoria Academic Hospital in Gauteng.

The INP is targeted at poor provinces with high populations of school children. Eastern Cape, Northern Province and KwaZulu-Natal receive about 63 per cent of the allocation. Due to underspending in this grant over the past three years, it remains constant at R582 million over the MTEF period. The Department of Health is also finalising a review of this grant that will inform any changes in its administration and the level of funding for the 2002 MTEF.

Education grants

The Department of Education manages the Financial Management and Quality Enhancement in Schools Grant introduced in 1998/99. In addition, a new grant aimed at funding the pilot programme for Early Childhood Development will be introduced in 2001/02.

The Financial Management and Quality Enhancement Grant was introduced in 1999/00 and was to be phased out in 2002/03. However, the Department of Education motivated for the continuation of this grant until 2003/04, in order to build on the foundation laid over the past year for improving the quality of outcomes in the education system. This grant is considered critical in the implementation of the Tirisano plan. No changes were made to the baseline allocation, which amounts to R213 million in 2001/02, increasing to R234 million in 2003/04.

The Early Childhood Development Grant is aimed at developing the capacity of the provincial education departments to ensure the expansion of a compulsory reception year (grade R) for learners turning six years. The grant will mainly be used to continue the pilot programme of service delivery and provision, options that will also involve collaboration with a range of community based organisations (CBOs), and non-governmental organisations (NGOs). The department plans to phase in the Reception class (or Grade 0) over a five-year period, beginning in 2001. The allocation to provinces amounts to R21 million in 2001/02, increasing to R88 million in 2003/04.

National treasury grants

Except for changes arising from the merging of small grants, the Supplementary Grant is kept constant. The Supplementary Grant contains two windows. The first window is the original allocation for general provincial budgetary support, which remains at R2 billion over the MTEF. The rationale for the continued existence of the grant in the next three years is premised on the need to deepen budget reform, strengthen the oversight role of national government over provincial finances, and encourage continued improvement in financial and expenditure management, including the effective implementation of the PFMA.

A second small window has been created in the Supplementary Grant to merge a number of small and fragmented grants. This portion of the grant amounts to R247,8 million. This will allow for a more informal arrangement, in terms of which many of the smaller budget objectives of various departments can be realised without imposing undue administrative burdens on provinces. The grants that have been consolidated into the Supplementary Allocation Grant are the R293 Personnel Grant (R105 million for the first year only), the Financial Management Grant (R124 million), the Capacity Building Grant (R10 million) in the delivery of housing, and funds for the implementation of the National Land Transport and Transition Act (R9 million).

A significant portion of the financial management allocation will be devoted to pilot projects in the major academic/central hospitals in order to improve financial management in these hospitals.

The Provincial Infrastructure Grant was introduced in the 2000/01 budget at R300 million a year, to enable provinces to address provincial infrastructure needs, particularly the rehabilitation and maintenance of provincial roads, schools and health facilities. However, due to the recent floods, the grant has been diverted to the reconstruction of infrastructure in affected provinces (Mpumalanga, KwaZulu-Natal, Northern Province and Eastern Cape).

The Provincial Infrastructure Grant of R300 million a year has been supplemented by R500 million in 2001/02, R1 250 million in 2002/03 and R2 billion in 2003/04. This brings the total infrastructure funds available through this grant to R4,65 billion over this period. So that this grant be used effectively to deal with backlogs, the provincial division has been effected using the average of the percentage equitable shares and the backlog component. This enables government to direct funds towards provinces with large backlogs, without neglecting provinces that have inherited higher levels of infrastructure.

In 2001/02, provinces are expected to use these funds mainly for maintenance of roads, schools, and health facilities and to address the specific infrastructure needs for rural development. The provincial treasuries will administer the grant. The allocations are to be made to the line departments responsible for the implementation of the infrastructure projects. Provinces are also expected to build capacity in treasuries to oversee the implementation of infrastructure plans and capital projects. as inadequate capacity and poor planning have been major reasons for under-spending of capital grants.

The 2001 Budget framework also sets aside funds for flood reconstruction amounting to R600 million in 2001/02, R400 million in 2002/03 and R200 million in 2003/04, for spending in provinces and municipalities. To simplify administrative arrangements, it is proposed that this grant be incorporated into the Provincial Infrastructure Grant, but as a separate window.

Housing grants

The Department of Housing administers two grants. The Housing Fund provides subsidies for low income housing, and the Human Settlement Redevelopment Grant funds pilot projects in urban areas. The Housing Fund allocation is adjusted to take account of inflation, from R3,0 billion in 2000/01 to R3,2 billion in 2001/02 and rises further to R3,6 billion in 2003/04. This represents an annual average growth of 4,8 per cent. The current structure of the formula does not take into consideration the actual spending capacity of provinces.

The Grootboom Constitutional Court judgement poses new challenges for government in allocating this grant. Government is setting aside a portion of the housing funds for urgent housing needs.

The Human Settlement Grant increases sharply from R20 million to R100 million between 2000/01 and 2001/02, and remains stable thereafter. The allocations for this grant can be found in Appendix E1.

Welfare grants

The Financial Management Grant was to be phased out this year. However, the department has motivated for the continuation of the grant in order to fund information technology infrastructure in the provincial welfare departments, and to fund the provincial operation centres. The grant continues for two years, with allocations of R10 million in 2001/02 and R11 million in 2002/03 made to provinces.

HIV/Aids conditional grants

The 2001MTEF allocation for HIV/Aids builds on the total allocation of R75 million made to Health, Welfare and Education in 2000/01 to finance a more effective and integrated response to the HIV/Aids epidemic. The HIV/Aids plan adopted by the three departments has four key components:

- Rolling out life skills and HIV/Aids in all primary and secondary schools.
- Providing increased access to voluntary counselling and testing for HIV/Aids.
- Developing and piloting community-based care models for children affected by and infected with HIV/Aids.
- Public campaigns (community mobilisation) to link with other components.

Of the R125 million allocation for HIV/Aids in 2001/02, R110 million is allocated to provinces in order to implement this programme. R63,5 million is allocated to the Department of Education to roll out the Life Skills Programmes in schools, R34,1 million to the Department of Health for increased access to voluntary counselling and community mobilisation, and R12 million to the Department of Welfare for community based care.

Part 5: Local government allocations

The primary source of local government revenue is taxes and user charges raised by individual municipalities. Grants from national government, including the equitable share and conditional grants, comprised about 7 per cent of the approximately R58 billion spent by local government in the 1999-00[4] financial year.

There has been a significant increase in allocations to local government for the 2001/02 MTEF. This includes major increases to the equitable share and the addition of a new conditional grant to assist municipalities with once-off transition costs arising from demarcation. In total, national transfers to local government will increase from R5,7 billion in 2001/02 to R7,8 billion in 2003/04, an average annual increase of 11 per cent. This excludes agency payments. Table E12 reflects national transfers to local government by major category.

Table E12 National transfers to local government by category

R millions	2000/01	2001/02	2002/03	2003/04
Equitable share	1 867	2 618	3 002	3 551
R293 personnel[1]	463	-	-	-
Transition grant	100	250	200	-
Water & sanitation operating subsidy	746	692	644	662
Equitable share and operating subsidies	**3 176**	**3 560**	**3 846**	**4 213**
Capacity building and restructuring	566	681	860	892
Capital transfers	1 970	2 266	2 450	2 743
Total transfers to local government	**5 712**	**6 507**	**7 156**	**7 849**
Percentage increase		*14%*	*10%*	*10%*

[1] R293 municipal portion (R358 m) incorporated in local government equitable share.
[2]SALGA is allocated R15 million per year beginning in 2001/02 on the vote of DPLG

Types of Transfers

Local government transfers from nationally raised revenue takes three forms: an equitable share of nationally raised revenue, conditional grants and grants-in-kind. These are discussed below:

- Equitable share allocations are made to all primary municipalities, without any conditions attached. These allocations are made in terms of a policy framework described in *The Introduction of an Equitable Share of Nationally Raised Revenue for Local Government* published by the Department of Finance in 1998[5], and administered by the Department of Provincial and Local Government.
- Conditional grants are made to those municipalities that apply for or are selected to receive these funds. These grants are operated and disbursed by departments in pursuit of specific policy objectives and with conditions attached to their disbursement.
- Grants-in-kind are made to those municipalities which perform certain services on behalf of national or provincial government, or are subsidised indirectly by a national or provincial department through the provision of a service for which a municipality is responsible. Examples of the former are certain health and emergency services, while an example of the latter is the Water Services Operating Subsidy.

National government is continuously refining the system of intergovernmental transfers to municipalities in order to improve their efficiency, equity, transparency and predictability. This reform programme will:

- Simplify and rationalise national transfers to the local government sphere, including consolidating capacity building grants into one inter-departmentally coordinated mechanism,

4The local governments financial year runs from 1 July to 30 June and is denoted as 2000-01. The financial year of national and provincial governments runs from 1 April to 31 March and is denoted as 2000/01.

5 This document is available on the Department's website at http:\\www.treasury.gov.za

consolidating capital transfers into CMIP, and consolidating other transfers into the local government equitable share.

- Introduce three-year allocations to individual municipalities for all national transfers in order to assist municipalities in their budgeting processes.
- Require municipalities to show all national and provincial transfers on their budgets and to periodically report on outputs achieved through each conditional grant programme.

The equitable share for local government

Background

The equitable share for local government was first introduced in the 1998/99 financial year. The equitable share formula is based on the principles of equity, transparency, predictability, and accountability.

National transfers to local government through the equitable share are projected to increase by 15,1 per cent a year from the 2000/01 allocation of R2,3 billion (excluding the provincial portion of R293 personnel) to R3,6 billion in 2003/04. These increases are to support institution-building in the newly demarcated municipalities and to provide resources to municipalities to implement commitment on the provision of free basic services.

Further expansion of the equitable share is anticipated when the Water Services Operating Subsidy is included in the equitable share. This allocation, which is made as an augmentation to the Water Trading Account on the Department of Water Affairs and Forestry vote, provides an untargeted subsidy to users of water schemes that are directly operated by that department. The Department is currently preparing for the transfer of these schemes to municipalities, in line with the constitutional allocation of functions. Once incorporated, this will significantly enhance the ability of municipalities to address the challenges of providing free basic services to poor households.

The Local Government Transition Grant, aimed at supporting municipalities through the transition process by partially assisting with once-off costs directly related to the amalgamation, will be absorbed into the equitable share in the 2003/04 fiscal year.

Equitable share formula

The local government equitable share formula consists of three components supporting operating costs in local authorities:

- An institutional grant (*I grant*) to support the overhead costs of local authorities with a small rates base in relation to their population.
- A basic services grant (*S grant*) to support the operating cost of basic services provided to low-income households.
- An allocation to municipalities that have assumed former R293 functions and staff from their provinces.

These components of the local government equitable share and the underlying data used in the formula are reviewed in the remainder of this section. A review and update of the equitable share formula was made possible by the completion of demarcation and recent development in the measuring poverty by Statistics SA. Improvements to the formula are described in this section.

Description of information supplied by Statistics South Africa

Statistics South Africa has organized the 1996 Population Census data by the new Category A, B and C municipal boundaries and has tabulated it for each municipality by:

- Gender
- Urban/rural residence
- Employed persons of age 15 to 65, by industry
- Average household size
- Derived household income (derived, that is, from all recorded personal incomes of household members plus the households additional income and remittances received) reported in four income classes: less than R 800 per month, R 801 – R 1 100 per month, R 1 101 – R 1 500 per month and more than R 1 500 per month.
- Imputed household expenditure based on regression relationships from the 1995 Income and Expenditure Survey/October Household Survey
- Population of old municipalities falling within each new municipality.

The I grant

The institutional grant to local authorities has the following features:

- It assumes that there are economies of scale in the overhead operating costs in relation to population, so that as the population rises, the I grant per capita falls.
- It declines as the average income of the local authority increases, so that for a given population size, poor local authorities receive a higher I grant than rich ones.

The mathematical formula for the *I* grant is:

$$I = I_0 P^g - 0.05(y - 180)P$$

where

- I is the institutional grant.
- I_0 is a parameter defining how much in aggregate will be distributed through the *I grant* (I_0 was set at R61 750 in the 2000/01 financial year).
- P is the population in the local authority.
- g defines the economies of scale (which has been set at 0,25), and y is the average income per capita in the local authority.
- $0.05(y-180)P$ represents normative rates income and assumes that individuals will pay 5 per cent of their income towards property taxes once the poverty threshold of R180 per month (equivalent to R800 per month for households) has been taken into account. A normative rates approach was taken so that local authorities could not manipulate the I grant by imposing low rates.

Given that a period of new institution-building will take place in 2001/02 and for some time beyond, the I grant portion of the equitable share may be increased in the 2001/02 allocation.. The I grant portion of the formula will be re-evaluated in future years to determine if it is still necessary. At that time, the I grant may be reduced or eliminated and the equitable share would then be allocated entirely through the *S grant* formula.

The above formula will also be adjusted from 2001/02 as a change in the R800 poverty threshold is adjusted to R1100 (see below). This will result in a change in the I GSrant formula from $0.05(y-180)P$ to $0.05(y-250)P$.

The S grant

The S grant is designed to meet the operating costs of providing basic services to low-income households. For this reason, the formula requires an estimate of the number of in households below the poverty level for each local authority.

The formula for the S grant is:

$S = a\,bLH$ where

- a is a phase-in parameter between zero and one based on the municipality's classification as metropolitan, urban, or rural.
- b is a budget-adjustment parameter, set to adjust the size of grants to the available budget.
- L is the annual per capita cost of providing basic services to households in poverty
- H is number of households in poverty.

Under the interim dispensation, municipalities were classified as metropolitan, urban and rural. The value of α was set differently for metropolitan/urban municipalities and rural municipalities. In 1998/99 the metro/urban α was set at 0,6 for urban areas and 0,1 for rural areas, the justification being that the proportion of the poor population actually in receipt of basic services would differ between urban and rural areas. The values for α were set to increase each year until they reached 1,0. The metro/urban α was set at 0,7 in 1999/2000 and the rural α was set at 0,25. To increase stability during the transition to newly demarcated municipalities, the α's were not changed in the 2000/01 allocations. For the 2001/02 allocations, the regular phase-in of the α values will be resumed. Accordingly, the metro/urban α will be set to 0,8 and the rural α will be set to 0,4.

The interim local government system formally distinguished urban municipalities from rural municipalities. This distinction is not a feature of the final local government dispensation. Therefore reconsideration of α (coverage parameter) in the S grant formula is necessary. Although Statistics SA no longer classifies municipalities as urban or rural, enumerator areas within municipalities are classified in this way. In future, the formula will use census data to determine the population in urban and rural areas within each municipality. It will use different values for α for each, so that average value for α varies across municipalities. The more urban the municipality, the higher would be the average value for α.

A rough estimate of the cost of a basic basket of services to determine the L parameter is as follows:

Table E13 Calculating the L parameter

Service	Rands
Electricity	36
Water	20
Refuse	20
Sanitation	10
Total	**86**

It should be stressed that these cost estimates are merely indicative. A study is currently underway to update the costs of this indicative basket of services.

There are two methods to determine H, the number of households in poverty,

- Derived household income

- Imputed household expenditure

In previous years, the derived household income, supplied by Statistics SA, has been used to determine the number of households in poverty. However, this method has a number of statistical flaws. In a study for Statistics SA in 2000, Harold Alderman and Associates developed an alternative to the derived household income method. This new method imputes an income to each household, using regression results of income on a range of variables from the 1995 Income and Expenditure Survey (IES). The relevant variables in the 1996 Census are then used to predict income for each household. Because Statistics SA's tabulations of imputed expenditure provide a more accurate measure of poverty, they may be used in the 2001/02 equitable share allocation model for calculating both the I and S Grants. The data will be updated annually using government published inflation figures.

In past years, the poverty level has been set at households earning R800 per month or less. It will now increase to R1 100 in 2001/02 to account for inflation since the formula was first developed. This will impact the H variable in the S grant. It will also result in a change in the normative rate portion of the I grant formula from $0.05(y-180)P$ to $0.05(y-250)P$.

Guaranteed amounts

To prevent potentially serious disruptions in services of those municipalities that faced substantial declines in transfers as a result of the implementation of the equitable share system, municipalities are guaranteed to receive at least 70 per cent of the allocation in the previous year. Thus municipalities received either the I plus S grant or the guaranteed amount, whichever is the greater. R293 grant allocations for 2001/02 to 2003/04 are provided on top of the guaranteed amount.

A guaranteed amount will be maintained in 2001/02 allocations using the following method:

- For new municipalities made up of several complete old local governments, the guaranteed amount for 2001/02 will be set at 70% of the sum of the 2000/01 allocations to all the component old municipalities.
- For newly demarcated municipalities that are composed of parts of existing municipalities, the guaranteed amounts will be determined by splitting the 2000/01 allocations between more than one newly demarcated jurisdiction on the basis of population shares.

R293 allocations

Some of the former homeland governments did not have municipalities, and thus provided municipal services directly. These areas were known as R293 towns, after the proclamation that established them. In 1994, R293 towns and their functions were transferred to provinces, with the intention of transfering them to local governments. Since then, national government has budgeted a separate allocation to support the transfer of these functions and personnel from provinces to municipalities. In 2000/01 the R293 allocation for municipal functions (R447 million) was incorporated into the local government equitable share. In 2001/02 the R293 allocation for personnel (R463 million) will be incorporated into the provincial and local government equitable shares. Based on the number of people actually transferred to municipalities or retained by provinces, the local government equitable share increases by R358 million while R105 million will remain with provinces.

2001/02 marks the first year that R293 will be budgeted as part of the equitable share. Based on previous agreements with local governments, municipalities will be guaranteed their current R293 grant allocations for three fiscal years. Accordingly, the R358 million in R293 funds will be determined separately from the allocation made via the I and S grant formulae.

Equitable share distribution

The equitable share will be distributed directly to "unicity" metropolitan authorities. Outside of the metros, the division of powers between Category C and Category B municipalities will be relevant. Category B municipalities will in the main be responsible for the provision of basic services. The exceptions to this rule will be:

- District management areas in which there is no Category B municipality and the Category C municipality carries out the relevant functions.
- Category B municipalities which are institutionally weak and have limited treasury functions, in which case the relevant Category C municipalities will be obliged to provide basic services on their behalf.

Except in the two cases described above, the equitable share allocation will be distributed directly to Category A and B municipalities.

Conditional grants to local government

Capacity-building grants

Many municipalities lack effective financial management, planning and project management capacity. There is currently a large number of grants that support municipal capacity-building.

The range of programmes administered by different national departments is fragmented and has not delivered substantial improvements in municipal capacity to date. Government intends to move toward one consolidated local government capacity-building programme, governed jointly by a multi-departmental team at the national level. A rationalised, co-ordinated approach toward municipal capacity-building should:

- Encourage national departments to be more transparent about their capacity-building programmes, and provide measurable outputs in this regard.
- Stabilise municipal budgets and build strong financial management practices, upon which other reforms can be implemented, and infrastructure and services expanded.
- Foster linkages between integrated development planning, spatial planning, and the budget process.
- Provide a sequenced programme of support to municipalities that prioritises financial management before resources are directed toward more advanced capacity programmes such as planning and performance management.
- Develop project management skills in municipalities.

As a first step toward implementation of this rationalised local government capacity building initiative, the Municipal Systems Improvement Programme has been created in the 2001 Budget. If successful, this programme will provide a framework for consolidation of all transfers for municipal capacity-building.

A portion of the funds from the Land Development Objectives grant has been used to set up the Municipal Systems Improvement Grant. In future, as particular capacity-building and restructuring grants reach the end of their terms, they will be phased into the equitable share for local government.

Restructuring grants

Restructuring support to large and smaller municipalities is effected through the Restructuring Grant and Local Government Support Grant respectively. The Restructuring Grant provides an opportunity for large municipalities to access funding to implement medium-term fiscal and institutional restructuring exercises, on the basis of their own restructuring plans. It is a demand-driven grant that encourages municipalities to become financially self-sustaining in the medium- to longer-term. The Local Government Support Grant assists smaller municipalities in financial crisis through both management support and emergency funding. The grant is increasingly focused on assisting these municipalities to restructure their medium-term fiscal positions, and thus avert future crises.

Both grant programmes are projected to increase significantly in the medium-term as municipalities take proactive steps to address their financial difficulties within the new structural arrangements for local government.

Table E14 Capacity-building and restructuring grants

R millions	2000/01	2001/02	2002/03	2003/04
Restructuring grant	300	350	450	465
Financial management grant	50	60	120	125
Local government support grant	150	160	220	230
Urban transport fund[1]	22	81	40	42
Land development objectives[2,4]	44	--	--	--
Municipal systems Improvement programme[3]		30	30	30
Total capacity-building and restructuring	**566**	**681**	**860**	**892**

[1] The 2001-02 allocation is R38 m plus R43 million in carry-overs from previous years.
[2] Incorporated into equitable share and municipal systems improvement programme.
[3] New conditional grant created to begin consolidation of municipal capacity-building funds.
[4] Current LDO commitments will be honoured.

Capital transfers to local government

Recent studies of the efficacy of existing municipal infrastructure grant disbursement mechanisms have identified the need to rationalise the number of grants to municipalities and to improve the mechanisms for the disbursement of these transfers. These proposals come in response to problems of inequity in the distribution of grants, as well as flaws in the arrangements for financial accountability identified by the Treasury and the Auditor-General. Rationalising and decentralising disbursement arrangements will offer clear benefits with regard to the sustainability of infrastructure investments, the transparency of allocations, and accountability for investment outcomes.

Grant rationalisation and disbursement reform correlate with recommendations on fiscal transfers. Moreover, such changes are opportune in the current stage of the local government transition, as they provide municipalities with a degree of fiscal certainty in a time of rapid change.

The Consolidated Municipal Infrastructure Programme (CMIP) will be transformed from a project-based disbursement mechanism to a formula-based mechanism in the forthcoming financial year. This approach will serve as a framework for one overall capital infrastructure grant mechanism governed by an interdepartmental team, as approved by Cabinet in the establishment of CMIP. Consolidation of transfers and greater transparency in the allocation process will allow problems related to co-ordination between infrastructure programmes and the housing programme to be effectively addressed.

National transfers for capital are projected to increase by 11,7 per cent a year from 2000/01 to 2003/04.

Table E15 Capital transfers to local government

R millions	2000/01	2001/02	2002/03	2003/04
CMIP	883	994	1 159	1 407
Water Service projects	609	822	818	835
Community based public works	374	374	374	374
Local economic development[1]	104	76	99	127
Total capital transfers	**1 970**	**2 266**	**2 450**	**2 743**

1. Includes allocation for Social Plan Measures.

As CMIP is the most appropriate vehicle for a rationalised capital grant programme, CMIP funding will increase by 17 per cent a year to R1 407 million in 2003/04. This will enhance assistance to municipalities in extending basic infrastructure services. In 2001, further progress should be made in rationalising capital transfers to municipalities through the incorporation of other capital grants into CMIP and the greater collaboration by departments in allocations to municipalities.

Appendix

Conditional grants to provincial and local government

Introduction

In order to comply fully with the 2001Division of Revenue Bill, detailed information on each grant is included in this Appendix. The information includes the:

- Purpose and measurable objectives of the grant
- Conditions of the grant (additional to what is required in the Bill)
- Criteria for allocation between provinces or municipalities
- Rationale for funding through a conditional grant
- Monitoring mechanisms
- Past performance
- The projected life of the grant
- The payment schedule
- Capacity and preparedness of the transferring department

There are gaps in much of the information provided by departments. The missing information on the grants are to be submitted by 30 April 2001for publication by the National Treasury.

PROVINCIAL GRANTS

Health grants

Table E1.1 Summary of health grants

R thousand	2000/01 Budget	2001/02	2002/03 Medium Term Estimates	2003/04
Central Hospitals	3 112 000	3 270 920	3 418 757	3 579 496
Health Prof. Training and research	1 174 000	1 234 090	1 290 694	1 350 560
Redistribution of tertiary services	176 000	182 160	189 000	197 505
Hospital rehabilitation programme	400 000	500 000	520 000	543 400
Durban and Umtata hospitals	273 000	103 800	-	-
Pretoria Academic Hospital		50 000	70 000	90 000
Integrated Nutrition Programme	582 411	582 411	582 411	582 411
HIV/Aids	16 819	34 100	-	-
Total	**5 423 139**	**5 957 481**	**6 070 862**	**6 343 372**

Central Hospital Grant	
Transferring department	Health (Vote 13)
Purpose	To fund the recurrent costs of super-specialist services (i.e academic tertiary and quaternary services) which are not provided in all provinces.
Measurable outputs	Objectives to be more clearly defined after the review to be submitted by 30 April 2001 Health to provide information on actual expenditure of central hospitals in the last three years and credible restructuring plan by 30 April 2001.
Conditions	Non-discrimination in admissions or tariff policies between residents and non-residents or against patients referred by hospitals, clinics or health personnel of other provinces.
Allocation Criteria	The 2001 MTEF allocations maintain the same proportions as previous years which were determined as follows: • The central hospital grant was initially distributed between the four provinces providing specialist health services on the basis of their share in central hospital expenditure. In 1999/00, a portion of the amount for central hospitals was channelled to a psychiatric hospital in the Eastern Cape, which led to a proportional reduction in the share going to the other provinces. • The shares between provinces are as follows: Eastern Cape received 0,4 per cent , Free State 7,6 per cent, Gauteng 48,0 per cent, KwaZulu-Natal 12,9 per cent and Western Cape 30,9 per cent. • The underlying data used to allocate between the latter four provinces is the actual expenditure of the 10 central hospitals. The hospitals currently being partly funded are: – Eastern Cape: Grahamstown High Security Psychiatry Facility – Free State: Universitas – Gauteng: Chris Hani/Baragwanath, Johannesburg, Pretoria Academic, Garankuwa – KwaZulu-Natal: Nkosi Albert Luthuli, Wentworth – Western Cape: Groote Schuur, Tygerberg, Red Cross
Reason not incorporated in equitable share	Specialist health services that are being funded through this grant are considered functions that have been allocated to the provinces which have provided them historically. Since these services also benefit other provinces, and because of the spill-over costs, they cannot be funded through the equitable share formula. This conditional grant amounts to a contribution of other provinces to the costs of providing these services.
Monitoring mechanisms	National department to report monthly confirming transfers with respect to the payment schedule. No report on actual spending will be required in 2001/02 from provinces.
Past performance	Funds have been flowing to provinces according to the payment schedules. There has been no under-spending by provinces as the grant provides general funding for the hospitals and actual expenditure exceeds the allocation.
Projected life	The national Department of Health to provide a clear restructuring and rationalisation framework for the specialised health services. This review of the grant is expected to provide inputs into its re-design.
Payment schedule	One payment per month – normally on 10th working day.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.2 Central Hospitals Grants per Province

	2000/01	2001/02	2002/03	2003/04
R thousand	**Budget**	**Medium Term Estimates**		
Eastern Cape	13 000	13 201	14 287	15 336
Free State	237 000	249 813	261 254	274 009
Gauteng	1 493 000	1 568 945	1 639 983	1 717 667
KwaZulu-Natal	407 000	427 525	446 990	468 269
Western Cape	962 000	1 011 436	1 056 243	1 104 215
Total	**3 112 000**	**3 270 920**	**3 418 757**	**3 579 496**

Professional Training and Research Grant	
Transferring department	Health (Vote 13)
Purpose	The purpose of the grant is to: • Support the training of health professionals and research. • Compensate provinces for the additional service costs associated with having undergraduate and post-graduate students training in the province's health facilities. • Support the shifting of under-graduate teaching from central hospitals to provincial, regional and district facilities.
Measurable outputs	Objectives are to be more clearly defined after the review, to be submitted by 30 April 2001. Health to provide information on actual expenditure of training hospitals in the last three years and credible restructuring plan by 30 April 2001.
Conditions	None for 2001/02.
Allocation criteria	The allocation of the grant is based on the actual number of undergraduate medical students in 1998/99, but: • 90% of the grant is divided between provinces with a medical schools on the basis of their final numbers • 10% of the total grant value is divided equally between the four provinces without a medical school and to the Eastern Cape.
Reason not incorporated in equitable share	Training of health specialists is considered an allocated function to provinces that traditionally provided these services. All provinces are expected to train nurses.
Monitoring mechanisms	Monitoring is done through: • Annual audit of the intake of health professional students being trained in all institutions across all provinces • Reporting by province on the research activities being undertaken within academic health complexes • Reporting by provinces on the number of teaching sites (i.e. health facilities used per province and the number of personnel trained)and the flow of students to health facilities per province • The national department reports monthly on transfers only, not expenditure
Past performance	Funds have been flowing to provinces according to the payment schedules as these funds form part of general funding within the hospital budget.
Projected life	National Department of Health to provide a clear restructuring and rationalisation framework for the specialised health services. This review of the grant is expected to provide inputs into its re-design.
Payment schedule	One payment per month – normally on 10th working day.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.3 Health Professional Training and Research Grant per province

R thousand	2000/01 Budget	2001/02	2002/03 Medium Term Estimates	2003/04
Eastern Cape	53 000	55 865	58 203	61 342
Free State	85 000	88 367	92 922	97 126
Gauteng	504 000	529 186	553 446	578 665
KwaZulu-Natal	147 000	154 388	161 337	169 715
Mpumalanga	23 000	24 377	25 528	26 582
Northern Cape	23 000	24 377	25 528	26 582
Northern Province	23 000	24 377	25 528	26 582
North West	23 000	24 377	25 528	26 582
Western Cape	293 000	308 776	322 674	337 384
Total	1 174 000	1 234 090	1 290 694	1 350 560

Hospital Rehabilitation Grant	
Transferring department	Health (Vote 13)
Purpose	To assist provinces in rebuilding and re-arranging hospital facilities in such a way that capital and maintenance activities are rationalised and effectively linked.
Measurable outputs	Number of hospital facilities upgraded and rehabilitated.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	The results of the CSIR 1995 hospital audit provided a basis for determining a backlog index which is used as the basis for equitable division of funds between provinces. The capacity of the province to spend the funds also plays a role.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Provincial health and public works departments are periodically visited to assess and resolve existing and future constraints. Project sites are also visited to assist provinces with the execution of these projects.
Past performance	Under spending of the grant has occurred over the years mainly due to lack of clear strategy for restructuring of the health facilities which was the major objective of the grant. To-date the grant has been used mainly for rehabilitation and maintenance of existing facilities rather than to support the restructuring of health facilities. For the 2001/02, the health sector has decided to use the grant more flexibly to allow for spending on maintenance, whilst the national department is putting together a health revitalisation plan and strategy.
Projected life	National Department of Health to provide a clear restructuring and rationalisation framework for the specialised health services. This review of the grant is expected to provide inputs into the re-design of this grant.
Payment schedule	Four installments (dates to be submitted).
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.5 Hospital Rehabilitation Programme per province

	2000/01	2001/02	2002/03	2003/04
R thousand	**Budget**	**Medium Term Estimates**		
Eastern Cape	84 000	69 000	81 000	84 645
Free State	31 000	16 000	17 000	17 765
Gauteng	55 000	102 000	105 000	109 725
KwaZulu-Natal	70 000	87 000	90 000	94 050
Mpumalanga	35 000	43 000	45 000	47 025
Northern Cape	7 000	10 000	10 000	10 450
Northern Province	52 000	88 000	92 000	96 140
North West	40 000	56 000	50 000	52 250
Western Cape	26 000	29 000	30 000	31 350
Total	**400 000**	**500 000**	**520 000**	**543 400**

Redistribution of Specialised Health Services	
Transferring department	Health (Vote 13)
Purpose	The purpose of this grant is to fund redistribution of tertiary services to provinces that are not currently providing these services and to reduce referrals to central hospitals. This will improve access to tertiary care facilities.
Measurable outputs	The outputs will be: • Facilities and tertiary services developed in a province • Reduction of referrals to central hospitals in other provinces
Conditions	Conditions for funding are: • Submission of proposals for the establish ment of extension of specialised health services including service delivery plans and expenditure estimates. • The projects must demonstrate that the goals will be met. Particular emphasis must be on the reduction of the number of people who have been referred from one province to another.
Allocation criteria	The following conditions will apply: • The populations of the five participating provinces. • An agreement with a province to build one regional hospital that can provide tertiary services. • Success in drawing specialists to participating hospitals will also influence future allocation of funds.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Monitoring will involve visiting provinces and project sites and receiving reports on the number of referrals.
Past performance	There has been under-spending on this grant in the past two years.. As a result, provinces can now use part of the grant to cover the operational costs of the newly established services. In the current year, trends to the end of December 2000 still show that spending is very slow, at less than 40 percent.
Projected life	To be determined by the results of the reviews and restructuring plans for the health sector.
Payment schedule	Four installments (dates to be submitted).
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.6 Redistribution of Specialised Health Services Grant per Province

	2000/01	2001/02	2002/03	2003/04
R thousand	**Budget**	**Medium Term Estimates**		
Eastern Cape	33 000	49 172	57 000	60 848
Mpumalanga	45 000	37 588	32 000	32 918
Northern Cape	16 000	16 700	16 000	15 960
Northern Province	45 000	44 500	51 000	52 868
North West	37 000	34 200	33 000	34 911
Total	176 000	182 160	189 000	197 505

Construction Grants – Pretoria Academic and Nkosi Albert Luthuli Academic	
Transferring department	Health (Vote 13)
Purpose	To fund the Pretoria Academic hospital in Gauteng, and Nkosi Albert Luthuli in KwaZulu-Natal.
Measurable outputs	Completion of the construction of hospitals.
Conditions	The provincial departments of health of the provinces in which these hospitals are located will accept full responsibility to fund future operational costs of the hospitals, and to reflect this in their budgets
Allocation criteria	Grant targeted to specific provinces: • Nkosi Albert Luthuli allocation is R103 million in 2001/02. • Pretoria Academic allocation is R50 million R70 million and R90 million over the three MTEF years.
Reason not incorporated in equitable share	Construction of academic complexes, which are, considered national assets for benefit of all provinces.
Monitoring mechanisms	Status reports are received regularly and the construction site is visited every 2-3 months for progress assessment. When the commissioning stage has started the frequency of reports and site visits will increase to once a month.
Past performance	Conditional grants have been allocated for the construction of the Nkosi Albert Luthuli Academic hospital in KZN (Durban Academic) and Nelson Mandela Academic (Umtata) hospital in the Eastern Cape in the past two years.
Projected life	Nkosi Albert Luthuli hospital grant phases out in 2002/03. Funding for Pretoria Academic phases out in 2003/04.
Payment schedule	To be submitted not later than 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Integrated Nutrition Programme	
Transferring department	Health (Vote 13)
Purpose	To feed primary school children, and facilitate nutrition education and health promotion.
Measurable outputs	While the number of children fed every day per qualifying school is the main measurable output others are to be developed by 30 April 2001.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	1991 population census and the poverty gap data were used as poverty index used to determine the allocations between provinces.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	To be submitted by 30 April 2001.
Past performance	There has been significant under-spending of this grant since 1998/99. By 31 December, 2000, up to 68 percent expenditure has been reported by provinces, reflecting possible under-spending of the grant in the current year.
Projected life	The allocation to this grant is kept constant over the 2001 MTEF pending the outcome of the review, which will determine the future of this programme. Options are being considered for this grant, which include mechanism to phase it into equitable share but still ensuring that provinces continue to deliver the services.
Payment schedule	Four installments (dates to be submitted).
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.4 Integrated Nutrition Programme

	2000/01	2001/02	2002/03	2003/04
R thousand	**Budget**	**Medium Term Estimates**		
Eastern Cape	131 838	131 838	131 838	131 838
Free State	39 394	39 394	39 394	39 394
Gauteng	54 673	54 673	54 673	54 673
KwaZulu-Natal	132 471	132 471	132 471	132 471
Mpumalanga	39 728	39 728	39 728	39 728
Northern Cape	10 096	10 096	10 096	10 096
Northern Province	106 032	106 032	106 032	106 032
North West	39 390	39 390	39 390	39 390
Western Cape	28 789	28 789	28 789	28 789
Total	**582 411**	**582 411**	**582 411**	**582 411**

HIV/AIDS Grant – Health Department	
Transferring department	Health (Vote 15)
Purpose	To enable the social sector to develop an effective integrated response to the HIV/Aids epidemic, focusing on children infected and affected by HIV/AIDS. This will include: • Health having the responsibility to expand access to voluntary HIV counseling and testing (VCT) • Community mobilisation in order to promote counseling and testing
Measurable outputs	Outputs include: • Increase access to voluntary counseling and testing to 12,5 percent of adult population aged between 15-49 years within three years, with specific targets for the youth and rural communities • Number of teachers trained as lay counselor's • Number of health districts which have voluntary counseling and testing facilities
Conditions	To be submitted.
Allocation criteria	Based on the national survey conducted in 1999 on the status and availability of Voluntary Counseling and Testing in all provinces and the business plans submitted by the provinces.
Reason not incorporated in equitable share	Special allocation for HIV/Aids made by Cabinet.
Monitoring mechanisms	To be submitted by 30 April 2001.
Past performance	New grant.
Projected life	For duration of the allocation.
Payment schedule	To be submitted not later than 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.7 HIV/Aids Grant to Provinces per Department

R thousand	2000/01 Budget	2001/02	2002/03 Medium Term Estimates	2003/04
Health	16 819	34 100		
Education	26 930	63500		
Welfare	5 620	12 500		
Total	**49 369**	**110 100**		

Table E1.8 Health HIV/Aids Allocation

R thousand	2000/01 Budget	2001/02	2002/03 Medium Term Estimates	2003/04
Eastern Cape	2 213	3 850		
Free State	1 460	3 850		
Gauteng	2 486	3 500		
KwaZulu-Natal	1 500	4 500		
Mpumalanga	1 822	3 350		
Northern Cape	1 239	3 850		
Northern Province	1 903	3 850		
North West	2 006	3 850		
Western Cape	2 190	3 500		
Total	**16 819**	**34 100**		

Education grants

Financial Management and Quality Enhancement	
Transferring department	Education (Vote 8)
Purpose	To improve the financial management of the education system and the quality of education in schools.
Measurable outputs	To be submitted by 30 April 2001.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	Education component of the provincial equitable share formula.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	To be submitted by 30 April 2001
Past performance	Although there has been an improvement in the flow of this grant to provinces, spending by provinces has not occurred effectively. In the last year, the Department of Education estimated under-spending amounting to about 50 per cent of transferred funds. In the current year, reports still reflect that spending is very slow, amounting to less than 50 per cent 9 months into the financial year.
Projected life	The department has not provided an evaluation of the impact of the grant since it was introduced in 1998/99.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.9 Financial Management and Quality Enhancement Grant per Provinces

R thousand	2000/01 Budget	2001/02	2002/03 Medium Term Estimates	2003/04
Eastern Cape	38 854	39 405	41 500	43 367
Free State	12 096	13 419	14 132	14 768
Gauteng	23 616	26 199	27 591	28 833
KwaZulu-Natal	45 765	47 073	49 575	51 805
Mpumalanga	14 016	15 549	16 375	17 112
Northern Cape	3 648	4 047	4 262	4 454
Northern Province	33 477	33 441	35 218	36 803
North West	15 360	17 040	17 946	18 753
Western Cape	15 168	16 827	17 721	18 519
Total	**202 000**	**213 000**	**224 320**	**234 414**

Early Childhood Development Grant	
Transferring department	Education (Vote 8)
Purpose	To continue with the pilot projects for the implementation of a compulsory reception yeas as part of the 10 years of compulsory. To develop the capacity of the national and provincial education departments to ensure the expansion of a compulsory Reception year (Grade R) for learners turning six years old.
Measurable outputs	Outputs include: • The number of trained educators and district management teams • The number of information campaigns conducted • The number of new sites for grade R in poor areas by service providers (Government, NGOs, CBOs) • Number of children in reception classes in poor areas.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	Education component of the equitable share formula is used to allocate between provinces.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	To be submitted by 30 April 2001.
Past performance	New grant.
Projected life	To be submitted by 30 April 2001.
Payment schedule	To be submitted by 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.10 Early Childhood Development

	2001/02	2002/03	2003/04
R thousand	**Medium Term Estimates**		
Eastern Cape	3 885	9 620	16 280
Free State	1 323	3 276	5 544
Gauteng	2 583	6 396	10 824
KwaZulu-Natal	4 641	11 492	19 448
Mpumalanga	1 533	3 796	6 424
Northern Cape	399	988	1 672
Northern Province	3 297	8 164	13 816
North West	1 680	4 160	7 040
Western Cape	1 659	4 108	6 952
Total	**21 000**	**52 000**	**88 000**

HIV/Aids Grant – Department of Education	
Transferring department	Education (Vote 8)
Purpose	The overall goal of HIV/Aids programme is: • To ensure access to an appropriate and effective integrated system of prevention, care and support for children infected and affected by HIV/Aids • To deliver life skills and HIV/Aids education in primary and secondary schools.
Measurable outputs	To be submitted by 30 April 2001.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	Education component of the equitable share formula is used to allocate between provinces.
Reason not incorporated in equitable share	Special allocation for HIV/Aids approved by Cabinet.
Monitoring mechanisms	To be submitted by 30 April 2001.
Past performance	New grant.
Projected life	For the duration of the allocation
Payment schedule	To be submitted by 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001

Table E1.11 Education HIV/Aids Allocation

R thousand	2000/01 Budget	2001/02 Medium Term Estimates	2002/03	2003/04
Eastern Cape	4 572	11 747		
Free State	2 297	4 001		
Gauteng	2 296	7 810		
KwaZulu-Natal	4 617	14 033		
Mpumalanga	2 473	4 636		
Northern Cape	1 467	1 207		
Northern Province	4 572	9 969		
North West	2 339	5 080		
Western Cape	2 297	5 017		
Total	**26 930**	**63 500**		

National Treasury grants

Supplementary Allocation Grant	
Transferring department	National Treasury (Vote 10)
Purpose	Objectives include: • Supplementing provincial budgets in order to ensure that provinces budget adequately for health, welfare, education, and infrastructure • Ensuring that provinces make progress in implementing the PFMA and improving financial management • Enabling provinces to provide for functions the grants for which have been consolidated into the supplementary allocation
Measurable outputs	Outputs include: • Budgets that provide adequate funding for the social services and conditional grants • Progress made in implementation of key provisions of PFMA (i.e functioning of internal audit units and audit committees, appointment of CFOs, etc) • Improvements in the quality of in-year monitoring reports (Section 40(4) reports, including Division of Revenue Act reports) • Improvement in financial management in hospital pilot projects
Conditions	Conditions include: • Compliance with the PFMA and Division of Revenue monthly reporting requirements and demonstrable progress in the implementation PFMA provisions • Realistic and credible budgets enacted by provincial legislature reflecting adequate funding of health, education, welfare, and infrastructure • Adequate steps taken to improve collection of own revenue, including the review of fees and administration • Compliance with the Division of Revenue Act and national legislation contemplated in sections 228(2)(b) and 230 of the Constitution • Compliance with agreements in the Budget Council and all relevant legislation.
Allocation criteria	R2 billion portion of the grant is allocated through provincial equitable share formula. The other portion is allocated according to the requirements of specific department (Housing – capacity building; Transport – NLTTA; DPLG - R293; and National Treasury – financial management).
Reason not incorporated in equitable share	Enables the National Treasury to play its oversight role over provincial finances and ensure implementation of budget and financial management reforms in the provinces.
Monitoring mechanisms	Monthly in-year reports including conditional grants. Two provincial visits by the National Treasury to assess sustainability of the budgets in line with expenditure trends up to end of June, and a second in October/November be part of the provincial MTEC hearings, and to further assess the sustainability of the budgets based on actual expenditure up to six months. Quarterly reports on progress with PFMA implementation relative to provincial plans and targets.
Past performance	Provincial budgets are better aligned with national priorities, showing improvements in funding social services. Budget process reforms are being implemented in provinces. The credibility of budgets has improved, and provinces have been able to turn their budgets around from deficit to surpluses used to repay debts. National Treasury has been able to fulfil its responsibility for monitoring over provincial budgets. Information submitted allows for S32 quarterly reports and production of two Intergovernmental Fiscal Reviews.
Reporting Responsibilities of Provincial Treasuries	Should submit section 40(4) PFMA reports, and Division of Revenue Act reports on a monthly basis.
Projected life	To be reviewed after four years.
Payment schedule	Two installments (31 July and 30 November 2001).
Capacity and preparedness of the transferring department	The National Treasury has a dedicated chief directorate on provincial fiscal relations and has developed a PFMA implementation guide (guide for accounting officers) and a PFMA implementation unit

Table E1.12 Components of Supplementary Allocation

R thousand	2001/02	2002/03	2003/04
		Medium-term estimate	
Supplementary Allocation			
Eastern Cape	347 448	341 515	338 010
Free State	133 963	133 819	132 856
Gauteng	298 511	307 193	310 008
Kwazulu-Natal	407 772	407 683	411 389
Mpumalanga	139 172	140 683	143 026
Northern Cape	47 588	48 511	48 382
Northern Province	273 351	270 664	272 260
North West	167 478	166 452	165 452
Western Cape	184 547	183 049	178 617
Subtotal	**2 000 000**	**2000 000**	**2 000 000**
Capacity-building (housing)			
Eastern Cape	1 100	1 100	1 100
Free State	1 100	1 100	1 100
Gauteng	1 100	1 100	1 100
KwaZulu-Natal	1 100	1 100	1 100
Mpumalanga	1 100	1 100	1 100
Northern Cape	1 200	1 200	1 200
Northern Province	1 100	1 100	1 100
North West	1 100	1 100	1 100
Western Cape	1 100	1 100	1 100
Subtotal	**10 000**	**10 000**	**10 000**
R293 (DPLG)		-	-
Eastern Cape	29 883	-	-
Free State	30 498	-	-
Gauteng	-	-	-
KwaZulu-Natal	24 157	-	-
Mpumalanga	4 731	-	-
Northern Cape	-	-	-
Northern Province	9 850	-	-
North West	5 758	-	-
Western Cape	-	-	-
Subtotal	**105 477**	**-**	**-**
NLTTA (Transport)			
Eastern Cape	1 000	2 000	2 000
Free State	1 000	2 000	2 000
Gauteng	1 000	2 000	2 000
KwaZulu-Natal	1 000	2 000	2 000
Mpumalanga	1 000	2 000	2 000
Northern Cape	1 000	2 000	2 000
Northern Province	1 000	2 000	2 000
North West	1 000	2 000	2 000
Western Cape	1 000	2 000	2 000
Subtotal	**9 000**	**18 000**	**18 000**
Financial management			
Eastern Cape	7 000	9 000	14 000
Free State	11 000	11 000	11 000
Gauteng	37 000	34 000	28 000
KwaZulu-Natal	21 000	19 000	17 000
Mpumalanga	7 000	8 000	12 000
Northern Cape	6 000	7 000	8 000
Northern Province	7 000	9 000	12 000
North West	7 000	8 000	11 000
Western Cape	21 000	19 000	17 000
Subtotal	**124 000**	**124 000**	**130,000**

Table E1.13 Supplementary Allocation: Total grants to provinces

R thousands	2000/01 Budget	2001/02 Medium Term Estimates	2002/03	2003/04
Eastern Cape	389 622	386 431	353 615	355 110
Free State	148 303	177 561	147 919	146 956
Gauteng	322 358	337 611	344 293	341 108
KwaZulu-Natal	451 032	455 029	429 783	431 489
Mpumalanga	152 522	153 003	151 809	158 126
Northern Cape	51 809	55 788	58 711	59 582
Northern Province	305 049	292 471	282 764	287 360
North West	185 803	182 336	177 957	179 552
Western Cape	205 502	207 647	205 149	198 717
Total	**2 212 000**	**2 247 877**	**2 152 000**	**2 158 000**

Provincial infrastructure grant

In order to simplify administrative arrangements, the provincial infrastructure and the infrastructure rehabilitation grants have been merged. The allocation of the rehabilitation grant will be based on different criteria, allowing allocations to be made to provinces affected by the 1999/00-flood disaster. The rehabilitation portion of the grant is not yet allocated between provinces.

Provincial Infrastructure Grant	
Transferring department	National Treasury (Vote 10)
Purpose	To enable provinces to fund construction, maintenance and rehabilitation of infrastructure.
Measurable outputs	Rehabilitation and maintenance of roads, school and health facilities, and rural development.
Conditions	Provinces to submit to the National Treasury by 30 April 2001 a detailed plan on proposed spending for the 2001/02 financial year for approval. A similar plan for 2002/03 and 2003/04 must be submitted by 30 June 2001 for spending The plans must indicate the extent to which province will match the allocations made to them and demonstrate how the implementation plan fits into the overall strategy of the sector.
Allocation criteria **Reason not incorporated in equitable share**	An average of the percentage equitable shares and backlog component of equitable share formula has been used to allocate funds between provinces. The aim is to introduce some bias in favour of provinces with substantial backlogs while at the same time supporting those that inherited substantial infrastructure from the previous dispensation. The flood reconstruction allocation will be based on approved damage claims and spending capacity This grant ensures that provinces give priority to infrastructure maintenance and rehabilitation in line with Government priorities..
Monitoring mechanisms	Submission of reports every quarter on the outputs achieved.
Past performance	Not applicable – the grant was allocated to provinces affected by the 1999/00-flood disaster.
Projected life	To be reviewed after five years.
Payment schedule	Four installments: • 24 May 2001; • 31 July 200; • 31 October 2001 • 23 January 2002.
Capacity and preparedness of the transferring department	The National Treasury has a dedicated chief directorate on provincial fiscal relations.

Table E 1.14 Provincial Infrastructure

R thousand	2001/02	2002/03	2003/04
	Medium Term Estimates		
Eastern Cape	147 275	286 107	428 504
Free State	48 342	93 913	140 653
Gauteng	80 860	157 084	235 266
KwaZulu-Natal	170 447	331 123	495 925
Mpumalanga	61 236	118 961	178 168
Northern Cape	29 411	52 997	71 931
Northern Province	143 369	278 519	417 139
North West	69 536	135 086	202 320
Western Cape	49 524	96 210	144 094
Total	**800 000**	**1 550 000**	**2 314 000**

Housing grants

Housing Fund Grant	
Transferring department	Housing (Vote 15)
Purpose	To finance subsidies for the national housing programmes.
Measurable outputs	Outputs include: • Number of houses constructed per province. • Number of households benefiting
Conditions	To be submitted by 30 April 2001.
Allocation criteria	Number of households earning R3,500 or less per month is the underlying data used to allocate between provinces, with these data derived from the 1996 census data.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Review of current reporting and accounting system by 30 April 2001. There will be separate monitoring that a portion of the budget is for desperate shelter needs
Past performance	Under spending occurred in 1999/00. Current spending amounts to about 52 per cent of the total budget.
Projected life	To be submitted by 30 April 2001.
Payment schedule	To be submitted by 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001.

Table E1.15 Housing Fund

R thousands	2000/01 Budget	2001/02 Medium Term Estimates	2002/03	2003/04
Eastern Cape	422 178	498 311	531 323	549 740
Free State	218 306	241 253	257 236	266 152
Gauteng	718 904	681 831	727 002	752 201
KwaZulu-Natal	587 650	617 647	658 566	681 393
Mpumalanga	173 461	208 355	222 158	229 859
Northern Cape	58 125	65 474	69 811	72 231
Northern Province	257 021	334 787	356 967	369 340
North West	220 569	256 735	273 743	283 232
Western Cape	341 466	321 564	342 867	354 751
Total	**2 997 680**	**3 225 958**	**3 439 674**	**3 558 898**

Human Resettlement Redevelopment Pilot Programme	
Transferring department	Housing (Vote 15)
Purpose	To fund projects that aim to improve the quality of the environment by addressing problems in urban communities.
Measurable outputs	The outputs of the programme depends largely on the unique content of each project funded in terms of the pilot programme. They will include: • Upgraded infrastructure in depressed areas and number of employment opportunities created • The number of existing residential areas re-planned and redeveloped which could include slum clearance, the acquisition of property, the resettlement of people.
Conditions	To form part of the contract between the provincial government and the national Department of Housing on specific projects.
Allocation criteria	Based on the project proposals submitted by province.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Project site visits.
Past performance	Under-spending occurred in 1999/00 and by 31 December 2000, less than 30 percent of the allocation was spent.
Projected life	To be submitted by 30 April 2001.
Payment schedule	To be submitted by 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001.

Table E1.16 Human Resettlement Redevelopment Grant

	2000/01	2001/02	2002/03	2003/04
R thousands	**Budget**	**Medium Term Estimates**		
Eastern Cape	-	8 500	10 000	11 000
Free State	1 700	5 000	7 500	8 500
Gauteng	3 500	26 000	23 000	21 000
KwaZulu-Natal	3 000	25 000	25 000	26 000
Mpumalanga	500	5 000	6 000	7 000
Northern Cape	1 200	1 000	2 500	3 000
Northern Province	1 000	10 000	11 000	11 000
North West	100	7 000	6 000	8 000
Western Cape	9 000	12 500	13 000	13 500
Total	**20 000**	**100 000**	**104 000**	**109,000**

Social Development grants

Financial Management and Improvement of Social Security System	
Transferring department	Social Development (Vote 35)
Purpose	To improve the financial management and administration as well as the functioning of social security system.
Measurable outputs	Outputs will include: • Official communication network provided for all grant inquiries to enable early response to beneficiaries • Development and implementation of efficient management information system for grant payments. • Effective and efficient financial management and administration of social security payments. • An effective and reliable payment database for social grant payments.
Conditions	To be submitted by 30 April 2001.
Allocation criteria	Based on needs of each province as determined from their business plans.
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Reporting in terms of the Division of Revenue Act requirements as well as quarterly evaluations of progress.
Past performance	To be submitted by 30 April 2001.
Projected life	Phases out in 2002/03.
Payment schedule	To be submitted by 15 March 2001.
Capacity and preparedness of the transferring department	To be submitted by 30 April 2001.

Table E1.17 Financial Management and Improvement of Social Security System

	2001/02	2002/03	2003/04
R million	**Medium Term Estimates**		
Eastern Cape	642	1 200	-
Free State	642	1 200	-
Gauteng	642	1 200	-
KwaZulu-Natal	642	1 200	-
Mpumalanga	642	1 200	-
Northern Cape	642	1 200	-
Northern Province	5 100	1 200	-
North West	642	1 200	-
Western Cape	642	1 200	-
Total	**10 236**	**10 800**	**-**

HIV/Aids Grant – Department of Social Development	
Purpose	The Department of Social Development is responsible for the development of home-based care (HBC) programmes in the community, involving the replication of models which have already been piloted, and community outreach .
Measurable outputs	Outputs include: • The number of orphans identified and monitored • The number of children receiving appropriate care • The number of effective local institutional structures and partnerships for the management and maintenance of home/community-based care and support programmes • Policies developed and implemented to protect children infected and affected with HIV/Aids
Conditions	Legal contract signed between provincial departments of welfare and implementing agencies.
Allocation criteria	Allocation made on the basis of the results of 1999 audit on the readiness of the health and NGO sectors to deliver HBC and support .
Reason not incorporated in equitable share	To be submitted by 30 April 2001.
Monitoring mechanisms	Monthly progress reports by provinces, as well as quarterly evaluation s.
Past performance	New grant.
Projected life	For the duration of the allocation.
Payment schedule	To be submitted by 15 March 2001.

Table E1.18 Social Development – HIV/Aids Allocation

R thousands	2000/01 Budget	2001/02 Medium Term Estimates	2002/03	2003/04
Eastern Cape	950	1 500		
Free State	910	1 500		
Gauteng		1 000		
KwaZulu-Natal		1 500		
Mpumalanga	960	1 500		
Northern Cape	1 000	1 500		
Northern Province	800	1 500		
North West	1,000	1 500		
Western Cape		1 000		
Total	**5 620**	**12 500**		

CONDITIONAL GRANTS TO LOCAL GOVERNMENT

Local Government Transitional Fund (LGTF)	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To assist municipalities with the once-off costs of amalgamating and establishing new structures following the municipal demarcation process and local government elections. Funding will be provided for a two-year period, with technical assistance available to those municipalities which lack the necessary capabilities
Measurable outputs	A comprehensive list of measurable outputs will be submitted by 30 April 2001 and will include requirements for: • Human resource and other transitional restructuring plans • Standardised budget control and reporting mechanisms • The compilation of a comprehensive and detailed asset register • A uniform revenue collection and billing system • Standardised and uniform credit control, indigent support and tariff charges • Standardised and coordinated service delivery mechanisms • Physical infrastructure for totally new municipalities. More customised outcomes and performance indicators may be developed for specific municipalities for implementation via funding agreements.
Conditions	Conditions will reflect measurable outputs. The transfer of funds will occur within the framework prescribed by the Accounting Officer responsible for local government.
Allocation criteria	The appropriate allocation of the funds between the different categories of municipalities will be determined based on the impact of demarcation, financial and administrative capabilities and expenditure responsibilities of each category of municipality as identified in departmental research. All Category B and C municipalities will qualify for an initial allocation of funds, for example, R250 000 for Category B municipalities and R500 000 for Category C municipalities. Those municipalities not severely impacted by demarcation and with sufficient capabilities will not qualify for any further funds. Municipalities will be informed of these indicative allocations by 5 May 2001 in order to prepare business plans in the format prescribed by the Department, listing activities identified in establishment plans according to priority, their anticipated commencement and completion dates, outcomes (key performance indicators) and costs. The business plans will be assessed to determine those municipalities qualifying for further funds, which will be published by July 2001.
Allocation by province and municipality	Initial allocations t o all municipalities will be gazetted by 5 May 2001. Further allocations to those municipalities qualifying for additional allocations will be made available in July 2001.
Monitoring system	To be developed by 30 April 2001
Budget on which transfer is shown	The LGTF will be shown as a conditional grant on municipal budgets.
Past performance	Not applicable – new grant.
Projected life	Will be incorporated into the equitable share in 2003/04
Reason not incorporated in equitable share	Created for a limited time to address financial challenges specifically related to the establishment of new municipalities.
Capacity and preparedness of transferring department	The grant design and disbursement framework, and the format for municipal establishment business plans, will be available on 30 April 2001

Local Government Restructuring Grant	
Transferring department	National Treasury (Vote 7)
Purpose	To modernise large municipalities and to make them more effective and efficient service delivery authorities through assisting them to restructure their organisations, functions and fiscal positions. National government will support municipal plans to the extent that they offer significant benefits to national economic stability and development.
Measurable outputs	Outputs of individual grants are specified by municipalities in their restructuring plans, and subject to negotiation with the National Treasury through the preparation of a grant agreement.
Conditions	Funds will be made available on the basis of a municipality's commitment to a locally owned, pre-existing normalization (budgetary restructuring) plan. Conditions will thus be associated with the intended outputs of the municipality's own restructuring plan, rather than funding specific projects. However, municipalities will be required to offer a credible analysis of the reasons behind their decision to restructure and evidence that their plan confronts these challenges. The municipal Council will need to agree to this plan in the form of a Resolution. The primary condition is that the continuing flow of grant funds will depend upon the progressive implementation of the agreed Restructuring Plan, measured through an agreed set of locally appropriate financial indicators and institutional milestones. In this regard, municipalities will be required to take credible steps to collect all revenues due to them.
Allocation criteria	Only municipalities with total annual budgets of R300 million or more are eligible to apply for this grant, as the Local Government Support grant will assist smaller municipalities. The allocation of funding is demand-driven, with applications being subject to intensive assessments of their credibility, as outlined in the existing grant disbursement framework. Applications must be submitted by 1 June 2001 and 1 October 2001.
Allocation by province and municipality	New allocations will be published on the National Treasury website following the signing of grant agreements.
Monitoring system	A management team will be appointed by the Treasury to assist with the technical evaluation of applications and regular reports required in terms of the grant agreements.
Budget on which transfer is shown	The grant will be shown as a conditional grant on the National Treasury vote, and must be reflected on the receiving municipality's budget.
Past performance	Satisfactory performance to date in pilot grant to the Greater Johannesburg Metropolitan Council for the implementation of iGoli 2002.
Projected life	Five years, depending on the outcome of a scheduled review of the grant programme in 2003/04.
Reason not incorporated in equitable share	The grant supports implementation of municipal restructuring exercises necessary to avoid financial distress and any risks to the national fiscus. It will be incorporated into the equitable share following an assessment that large municipalities are on a sustainable growth trajectory.
Capacity and preparedness of transferring department	The grant framework is available on the Treasury website (www.treasury.gov.za/documents/other/rgg.pdf). The National Treasury is fully prepared for any applications, and a directorate is dedicated for this purpose.

Municipal Systems Improvement Programme Grant	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	The purpose of the grant is to support municipalities in implementing new systems as provided for in the Municipal Systems Act, 2000. These new systems include integrated development planning, performance management, and related local public sector management reforms, which must be within that municipality's budgetary framework.
Measurable outputs	Framework to be developed by 30 April 2001.
Conditions	Conditions will be gazetted by 5 May 2001.
Allocation criteria **Allocation by province and municipality**	To be determined by 30 April 2001 Allocations will be gazetted by 5 May 2001.
Monitoring system	To be determined by 5 May 2001.
Budget on which transfer is shown	To be determined by 5 May 2001
Past performance	Not applicable since this is a new grant
Projected life	Will be reviewed annually to determine effectiveness and to assess whether it should be consolidated into the equitable share.
Reason not incorporated in equitable share	New grant to assist municipal capacity development.
Capacity and preparedness of transferring department	New grant. Arrangements for disbursements will be finalised by 30 April 2001

Local Government Support Grant	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To provide assistance to municipalities facing financial difficulties, by supporting their efforts to restructure their institutional and financial arrangements so that they may effectively manage their own affairs, exercise their powers and perform their functions.
Measurable outputs	The support to be provided to municipalities will focus on the financial and the administrative capacity of the municipalities. The emphasis will continue to be placed on the implementation of efficient and effective financial management systems, particularly as the restructuring and establishment of new municipalities takes place. Measurable programme outputs will be submitted by 30 April 2001. Although outputs may vary between municipalities, the following issues will be addressed: • Operating and capital budgets to be approved by Council within 3 months of support programme being introduced into the municipality • Annual financial statements for 2000/01 to be submitted to the Auditor-General by 30 September 2001 • Council approval and implementation of consolidated credit control, indigence and tariff policies • Debt restructuring plans to be approved by Council and implemented, including progress in dealing with outstanding statutory municipal obligations It is envisaged that many municipalities will receive some level of assistance with the compilation of the financial statements for the 2000/2001 financial year. It is expected that 80% of these statements, based on the 843 original municipalities, will be forwarded to the office of the Auditor-General on or before the due date of 30 September 2001. Support should be extended to cover the effective answering of audit queries and the consolidation of the financial statements in order to reflect the financial status of the newly established municipalities.
Conditions	Provinces will access the Local Government Support Grant through the submission of business plans that must stipulate the processes due to be undertaken by the province in order to address the restructuring needs of municipalities, and must focus on areas where the strengthening of the capacity of municipalities is required, particularly resulting from the impact of new legislation. Business plans proposing the provision of emergency financial support to municipalities must stipulate each municipality that requires assistance in order to meet their statutory obligations, the extent of the obligation(s) outstanding, and the relationship between this assistance and intervention procedures in terms of section 139 of the Constitution. Once a directive in terms of Section 139 (1) (a) of the Constitution has been issued to a municipality, a maximum of 7,5% of the provincial allocation may be used in order to assist municipalities with arrears on statutory payments on condition that a management support programme is implemented. All funding must be utilised according to a plan, developed by the municipality in order to restructure their institutional and financial arrangements to ensure a viable municipality with acceptable service delivery. Funding may cover professional fees as well as support for the implementation of processes that will positively impact on the cash flow or service delivery of the municipality concerned. A municipal council will be required to approve the appointment of a team to conduct a financial analysis and prognosis, approve any subsequent business plans and amendments, and appoint a management support team The once-off costs incurred through the demarcation and establishment process will not be funded by this grant.
Allocation criteria	Allocations are based on the relevant province's estimate of needs, following their assessment of the number of municipalities in financial distress and the extent of the support required. Municipalities with total annual budgets over R300 million must access funding through the Restructuring Grant, and are excluded from this process. Due to the extent of the donor programmes in Mpumalanga and the Northern Province, funding to these two provinces has been adjusted for the 2001/02 financial year. The level of support will be reviewed when determining the funding for future years. Future funds will be allocated to provinces based on their assessment of need. At this stage it is impossible accurately to allocate the funding for future years, as needs may change.
Allocation by province and municipality	Allocations for next three years are R160 million, R220 million and R230 million. Allocations by province and municipality will be published by 5 May 2001.
Monitoring system	The Department will expect quarterly reports on the progress made with the restructuring and capacitating of municipalities. Regular visits will be made to the provinces to assess progress and the financial position of municipalities will be monitored and analysed in order to assess and verify this progress.
Budget on which transfer is shown	As the Municipal Support Funds may be spent by the provinces for the benefit of local government, these funds will not appear on the municipal budgets as cash transfers, but will be shown as resource transfers. The department will take steps to ensure that funds are shown on municipal budgets by the next financial year. Financial assistance which is a direct income source for a municipality will be reflected in the budget of the municipality concerned.
Past performance	Being compiled by department
Projected life	Depending on a programme review, the funds may be incorporated into the equitable share in 2003/04
Reason not incorporated in equitable share	Specific restructuring support to municipalities in financial distress. Funds will be incorporated into the equitable share following an assessment that this facility is no longer required.
Capacity and preparedness of transferring department	The grant framework, allocations and payment schedule will be published by 30 April 2001.

Urban Transport Fund	
Transferring department	Transport (Vote 32)
Purpose	To promote the planning of intermodal land transport infrastructure and operations, the facilitation of integrated land use and land transport planning, and the development of guidelines in this regard.
Measurable outputs	Integrated land use and land transport plans.
Conditions	As per Division of Revenue Act, 2001
Allocation criteria	The grant is allocated to metropolitan and larger Category B municipalities, on the basis of priorities determined in terms of the National Land Transport Transition Act.
Allocation by province and municipality	The breakdown of the 2001/02 allocation of R80,8 million between the recipient municipalities is: • Cape Town Metro – R23,5 million • Durban Metro – 18,3 million • Tshwane Metro – R11,4 million • Johannesburg Metro – R7,3 million • Bloemfontein / Mangaung – R3, 3 million • Buffalo City – R1,8 million • Unallocated – R15,2 million
Monitoring system	Contracts between Department of Transport and municipal councils.
Budget on which transfer is shown	The transfer must be shown on municipal budgets
Past performance	To be submitted by 30 April 2001.
Projected life	The grant will be consolidated with other recurrent conditional grants or the equitable share by 2003/04.
Reason not incorporated in equitable share	The grant funds specific urban transport priorities, but will be incorporated into a consolidated capacity-building programme or the equitable share by 2003/04.
Capacity and Preparedness of Transferring Department	The grant framework and payment schedule will be published by 30 April 2001.

Local Government Financial Management Grant (FMG)	
Transferring department	National Treasury (Vote 7)
Purpose	To promote and support reforms to municipal financial management practices, including the modernisation of budgeting, financial management, accounting and monitoring systems in municipalities.
Measurable outputs	Outputs include: • The preparation and implementation of multi-year budgets meeting national norms and standards. • The adoption of Generally Accepted Municipal Accounting Practices. • Improvements in internal and external reporting on budgets and financial information.
Conditions	Conditions include: • The submission of Council resolution committing to budget reforms, to achieve multi-year budgeting, implementation of GAMAP, and improvement to reporting requirements. • A Council commitment to employ an appropriately skilled chief financial officer. • Submission of a checklist identifying critical financial management areas to be addressed. • Submission of a plan to address shortcomings and to implement reforms.
Allocation criteria	The allocation of funds will be targeted at pilot project municipalities, and well-capacitated large Category A, B, and C municipalities demonstrating a commitment to implement budget reforms. Once capacity develops, the grant will be made available to institutionally weaker municipalities.
Allocation by province and municipality	Allocation of the R60 million grant for 2001/02 between the various recipient municipalities will be published by 5 May 2001.
Monitoring system	In-year monthly/quarterly progress reports, as the case may be, will be requested from participating municipalities together with internal budget monitoring exercises performed by the National Treasury to measure progress.
Budget on which transfer is shown	The FMG will be shown as a conditional grant on the National Treasury vote and indicative allocations must be reflected in municipal budgets.
Past performance	Significant progress in 8 pilot municipalities in the last financial year towards implementing three-year budgets and reforming financial management practices.
Projected life	Programme to continue for five years, with a performance review to be conducted by the third year.
Reason not incorporated in equitable share	Due to the critical need to develop municipal financial capacity as the foundation upon which other reforms can be built.
Capacity and preparedness of transferring department	Grant framework submitted and indicative allocations already determined for 2001/02 financial year. Full details to be published by 30 April 2001.

Water Services Operating Subsidy (via augmentation to the Water Trading Account)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To augment the Water Trading Account on the Department of Water Affairs and Forestry and thus provide subsidies to users of water schemes that are directly operated by the department. As water services provision is a functional competence of local government, the department is preparing to transfer these schemes, with associated staff and subsidies, to municipalities. This transfer will be converted into a conditional grant to facilitate the transfer process.
Measurable outputs	Measurable outputs will be submitted by 30 April 2001 and will address: • The ongoing operation of water services schemes owned and operated by the department • Improved revenue collection • Establishment of water services provision agreements • Successful transfer of schemes to municipalities
Conditions	None at present. By a date to be determined by the National Treasury, no operating subsidies may be provided unless there is a formal service provision agreement between the department and the relevant municipality that includes provisions for the payment of services rendered by the department. In future the grant will be used to facilitate the transfer of schemes.
Allocation criteria	None, targeted to all departmentally-owned schemes
Allocation by province and municipality	Allocations will be gazetted by 5 May 2001. Funds will be spent by the department until a service provision agreement is in place.
Monitoring system	To be developed by 30 April 2001
Budget on which transfer is shown	The allocation is shown on the Water Affairs and Forestry vote. Once water services agreements are in place, the transfer will be shown as a conditional grant on municipal budgets, in recognition of the functional responsibility of local government with regard to the provision of water services.
Past performance	Poor revenue performance on schemes to date.
Projected life	Four to seven years, following which funds will be incorporated into the equitable share for local government.
Reason not incorporated in equitable share	The grant will facilitate the transfer of water services schemes to municipalities, following which they will be incorporated into the equitable share.
Capacity and preparedness of transferring department	Grant design and disbursement framework under preparation as part of policy development process for transfer of water schemes. Documentation will be available on 30 April 2001

Water supply and water-borne sewerage disposal schemes (historical capital subsidy)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To honour existing subsidy commitments in terms of Government Notice (GN) No.1341 of 30 June 1989 (as amended) and GN No. 247 of 6 February 1987 (as amended) to municipalities who have installed water services works and obtained approval for subsidies in terms of section 162 of the Water Act (Act No 54 of 1956).
Measurable outputs	Payment of obligations in terms of grant purpose
Conditions	Conditions include: • Subsidy limited to a maximum of one-third of construction costs • No further subsidies may be granted.
Allocation criteria	Allocated historically in accordance with prevailing legislation.
Allocation by province and municipality	Three-year indicative allocations by municipality will be gazetted by 5 May 2001.
Monitoring system	None
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Past performance	Construction of water services assets subsidised in 9 municipalities
Projected life	Programme will terminate following elimination of existing obligations. At current payment levels this is projected to take up to 13 years
Reason not incorporated in equitable share	This is a specific capital transfer to meet historical obligations incurred under the Water Act, 1956
Capacity and Preparedness of Transferring Department	The department has an established grant framework, which will be submitted by 30 April 2001.

Local Economic Development Fund (LED) and Social Plan Measures	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To fund municipalities' job creation and poverty alleviation projects.
Measurable outputs	Measurable outputs will be submitted by 30 April 2001, related to the key focus areas of the fund which includes: • Feasibility studies undertaken prior to the implementation of LEDF projects • The development of economic infrastructure, (e.g. business hives, arts and crafts centres, agro-processing centres, micro-manufacturing centres, hydroponic tunnels, abattoirs, irrigation schemes et cetera) • The establishment and support of SMMEs through provision of affordable business premises, equipment, transport and marketing • Skills development through on-the-job training • Short- and long-term employment
Conditions	As per Division of Revenue Act, 2001
Allocation criteria	Formula-driven allocations by province, based on the provincial population and three bias factors (poverty, rural population, and women). Allocations to municipalities are based on project applications.
Allocation by province and municipality	Allocations by province have been made, and allocations by municipality will be published by 5 May 2001, after project applications have been approved for the 2001/02 financial year.
Monitoring system	• All business plans must include Key Performance Indicators (KPIs) and a means of verifying these indicators. DPLG has created a list of 'general' KPIs that must be used in addition to project-specific KPIs to measure the performance of the projects. • Municipalities will be required to gather baseline information concerning the targeted community prior to project implementation. • Monthly progress reports will be produced in line with Treasury requirements for poverty alleviation funds and conditional grants. • Site visits will be conducted by provincial and national departments to verify project information, provide technical assistance, solve problems and monitor progress.
Budget on which transfer is shown	The transfers will be reflected on the municipal budgets as they are made directly to municipalities.
Past performance	To be submitted by 30 April 2001.
Projected life	Will be incorporated into a consolidated municipal infrastructure fund, pending the finalization of a policy framework.
Reason not incorporated in equitable share	• Funds will be transferred directly from DPLG to municipalities • DPLG will provide an up-front payment of 33% of the project • DPLG will transfer the remainder of the grant in two tranches, subject to adequate project performance
Capacity and preparedness of transferring department	The department has compiled a grant framework and will publish allocations to municipalities by 5 May 2001.

Land Restitution, Land Reform and Land Tenure Grant	
Transferring department	Land Affairs (Vote 28)
Purpose	To transfer funds or assets to municipalities for the development of municipal infrastructure associated with the implementation of land reform projects
Measurable outputs	Number of land reform projects implemented.
Conditions	Conditions include: • The transfer of funds will only occur is the receiving municipality has effective financial systems in place • Funds may only be used in accordance with project agreements • Transfers may not be made without the approval of the benefiting municipality
Allocation criteria	No prescribed formula for allocations as this is done on a per project basis. These allocations only account for a portion of the total land reform transfers, as the bulk of transfers are made to households.
Allocation by province and municipality	Actual transfers will be reported on in-year.
Monitoring system	Accomplished in terms of standard contract between the department and implementing municipality, including regular progress reports.
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets, or as an asset transfer.
Past performance	To be submitted by 30 April 2001.
Projected life	The programme's funding arrangements are currently under review and it is likely that infrastructure transfers will be phased out to allow greater coordination with other municipal infrastructure programmes.
Reason not incorporated in equitable share	This is a specific capital transfer to assist municipalities to develop infrastructure in support of land reform and restitution projects.
Capacity and preparedness of transferring department	The department has an established grant framework, standard contracts and reporting requirements. Further details will be submitted by 30 April 2001.

Consolidated Municipal Infrastructure Programme	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To provide internal bulk, connector and internal infrastructure and community services and facilities for low income households.
Measurable outputs	Measurable targets for the 2001/02 financial year will be submitted by 30 April 2001. The key outputs of the programme are: • The quantity and quality of infrastructure developed • Categories of projects funded • Number of beneficiaries • Location of projects • Employment opportunities created and training provided • SMME involvement
Conditions	Conditions include: • Funds may only be used for municipal infrastructure investment • Submission to the department of a municipal council resolution approving each project • A maximum of 3.5% or an agreed amount on each allocation may be utilised for programme management services by provinces • Must be allocated in accordance with the Division of Revenue Act
Allocation criteria	Allocated on a poverty-weighted formula including the number of households in poverty and the number of households without access to basic water services.
Allocation by province and municipality	Allocations will be gazetted by 5 May 2001.
Monitoring system	The department monitors financial transactions and outputs through monthly and quarterly meetings with provincial programme managers, site visits and reporting requirements placed on municipalities. Monthly monitoring focuses on financial transactions and project implementation status, while quarterly reports focus on key performance indicators.
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Past performance	Extensive expansion of municipal infrastructure to poor households.
Projected life	Will be consolidated into coordinated municipal infrastructure grant framework on completion of policy framework.
Reason not incorporated in equitable share	This is a specific capital transfer focussed on the national policy priority of ensuring all South Africans have access to at least a basic level of municipal services.
Capacity and preparedness of transferring department	The Department has finalised grant framework and indicative three-year allocations, which will be published by 5 May 2001. Further details are available on the department's website (www.local.gov.za)

Community Based Public Works	
Transferring department	Public Works (Vote 30)
Purpose	To create useful public assets for disadvantaged poor communities, and thereby to create short-term employment opportunities in the construction process, and sustainable employment opportunities in businesses associated with these assets.
Measurable outputs	Measurable outputs will be submitted by 30 April 2001. Outputs will include the creation of useful public assets, amount of temporary employment during construction, and long-term sustainable jobs associated with the assets.
Conditions	Programme conditions include requirements that: • A minimum of 30% of the project budget is spent on community labour, with women constituting 50% of those employed, youth 15% and disabled people 1,5%. • A minimum of five indigenous trees are planted per project
Allocation criteria	Allocations made to rural district municipalities on the basis of a targeting formula that takes into account the population and extent of poverty in each district. The formula ranks district municipalities from poorest to richest (excluding urban metropolitan councils) and then allocates funds based on this ranking. Eligible district municipalities receive a minimum of R2 million.
Allocation by province and municipality	The allocations per province and municipality for 2001/02 will be published by 5 May 2001
Monitoring system	A monitoring system has been established that includes the project development cycle, the responsibilities of all role players, contractual arrangements, financial and auditing procedures, and reporting procedures
Budget on which transfer is shown	District municipalities will be required to include the grant within their budget.
Past performance	To be submitted by 30 April 2001.
Projected life	Will be consolidated into coordinated municipal infrastructure grant framework on completion of policy framework.
Reason not incorporated in equitable share	Allocating drawn from special poverty alleviation funds.
Capacity and preparedness of transferring department	The department has an established grant and project management framework, which will be published by 30 April 2001.

Implementation of Water Services Projects (Capital)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To fund bulk, connector and internal water services infrastructure at a basic level of service, and implement such projects where municipalities lack the required capacity to do so.
Measurable outputs	Measurable outputs will be submitted by 30 April 2001 and will include basic water and sanitation infrastructure provided to poor households, primarily in rural areas, and the sustainable operation of implemented water services schemes.
Conditions	Funds may only be committed to new projects once a formal agreement has been reached between the Department of Water Affairs and Forestry and the municipality regarding the ownership of the asset and ongoing financial responsibilities for operating and maintaining the project. Funds will be allocated in accordance with the Division of Revenue Act, with asset or funds transfer dependent on the capacity of the benefiting municipality.
Allocation criteria	Allocated on a poverty-weighted formula with a strong rural focus.
Allocation by province and municipality	Allocations by municipality, indicating spending commitments rather than projected cash transfers in cases of weak municipal capacity, will be gazetted by 5 May 2001.
Monitoring system	Projects are managed and monitored internally by department, or through contract driven Build Operate and Transfer arrangements, unless the municipality has a demonstrable capacity to do so itself.
Budget on which transfer is shown	The grant will be shown as a conditional grant or asset transfer on municipal budgets.
Past performance	Approximately 6.5 million people have been provided with access to basic water services to date, with 323 projects completed and 42 transferred to municipalities. Due to lower allocations for sanitation projects, only 17 991 toilets have been constructed in the past four years
Projected life	Will be consolidated into coordinated municipal infrastructure grant framework on completion of policy framework.
Reason not incorporated in equitable share	This is a specific capital transfer focussed on the national policy priority of ensuring all South Africans have access to safe water sources and acceptable sanitation systems.
Capacity and preparedness of transferring department	The department has an established grant and project management framework.

National Electrification Programme	
Transferring department	Minerals and Energy (Vote 29), via National Electricity Regulator
Purpose	To implement the national electrification programmes through providing capital subsidies to municipalities to: • Accelerate the electrification of permanently occupied residential dwellings that are situated in legally authorised areas set out by Local Government for formal or informal permanent settlement in designated township development areas where Eskom does not supply electricity; • Maximise the number of new connections in the furtherance of electrification in historically under-supplied areas • Contribute towards leveling the playing field between Eskom distributors and local authority distributors.
Measurable outputs	Measurable outputs will be submitted by 30 April 2001 and will include the number of household connections made.
Conditions	Distributors who receive funding must undertake to: • Account for the allocated funds separately from their normal business • Pass all benefits derived from the scheme on to end-customers • Not utilise the fund for any purpose other than electrification • Adhere to the approved electrification programme • Ring-fence their electricity accounts (initially supply accounts) • Submit an indication of cash outflow during the project cycle
Allocation criteria	Allocations are made on the basis of project applications from licensed distributors who: • Meet the NER requirements e.g. in terms of documentation, approved tariffs, ring-fenced accounts • Have the financial, technical and staff capabilities to distribute electricity and to expand the network • Regularly pay their bulk supply account and are up-to-date with payments agreed to with the bulk supplier • Apply credit control effectively • Have consulted their communities regarding their needs for services and energy, their priorities and their ability and willingness to pay for electricity and have obtained their consent to the electrification programmes
Allocation by province and municipality	Allocations to municipality will be gazetted by 5 May 2001. The closing date for receiving applications at the NER was 15 January 2001 and no late applications will be considered. The project cycle will be 1 April 2001 to 31 March 2002 and this will be managed strictly. Only projects with existing houses (or where house connections can be guaranteed before 31 March 2002) will qualify.
Monitoring system	Applications will be assessed by the External Electrification Funding Evaluation Committee of the NER Board.
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Past performance	To be submitted by 30 April 2001.
Projected life	Programme will terminate following the establishment of the National Electrification Fund by the Department, which is anticipated to occur in the 2001/02 financial year.
Reason not incorporated in equitable share	This is a specific capital transfer in support of the electrification programme.
Capacity and preparedness of transferring department	The NER, as the mandated agent of the DME, will take full responsibility for the administration and control of these projects. A grant framework and applications procedures are detailed on the NER website (www.ner.org.za)