E

Explanatory memorandum to the Division of Revenue

Background

The division of revenue between the spheres of government is among the most important decisions made in the budget process. Section 214(1) of the Constitution of South Africa 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 (No. 97 of 1997)* gives effect to section 214 of the Constitution by setting out the process of intergovernmental consultation 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 raised revenues.

Section 10(5) of the Act requires that the Division of Revenue Bill, when introduced to Parliament, be accompanied by an explanatory memorandum detailing how the Bill takes account of the matters listed in Section 214(2)(a) to (j) of the Constitution, the Government's response to any recommendations of the Financial and Fiscal Commission (FFC), and any assumptions and formulae used in arriving at the respective divisions among provinces and municipalities.

This explanatory memorandum to the 2004 Division of Revenue Bill fulfils the requirement set out in Section 10(5) of the *Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997)*, and goes beyond the requirements of both this Act and the Constitution by including the division of all local government grants by municipality for the next three years thus providing certainty and predictability to the local sphere of government.

The explanatory memorandum contains six parts. Part 1 is a summary of how the Bill and the division of revenue take account of Section 214(2)(a) to (j) of the Constitution. Part 2 sets out how the FFC's recommendations on the 2004 division of revenue have been taken into account. 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 and conditional grants among provinces. Part 5 sets out the formula and criteria for the division of the local government equitable share and conditional grants between municipalities. Part six provides a brief analysis of the total allocations to provinces and municipalities, and concludes by raising issues for consideration for the 2005 division of revenue.

This explanatory memorandum must be read with the Division of Revenue Bill. The Division of Revenue Bill and its underlying allocations are the culmination of extensive consultation processes between the three spheres of government. The Budget Council deliberated on the matters discussed in this memorandum at its annual Lekgotla from 1 to 4 October 2003, and meetings of 6 June and 5 August 2003. The approach to local government allocations were discussed with organised local government at several technical meetings with the South African Local Government Association (SALGA) and provincial associations, culminating in a meeting of the Budget Forum (Budget Council plus SALGA) on 16 October 2003. The Ministers' Committee on the Budget (which also consulted MECs for Finance on social sector budgets) forwarded its recommendations on the division of revenue to Cabinet for consideration. An Extended Cabinet meeting, involving Cabinet Ministers, Premiers of provinces and the chairperson of SALGA, was held on 22 October 2003 and agreed on the final budget priorities and the division of revenue over the next three years.

Part 1: Taking account of factors set out in the Constitution

Section 214(2) of the Constitution requires that the annual *Division of Revenue Act* only be enacted after taking account of the factors in sub-section 214(2) (a) to (j) of the Constitution. These include national interest, provision for debt, national government needs and emergencies, the need to ensure that provinces are in a position to provide constitutionally mandated services, developmental and other needs of provinces and local government, fiscal capacity and efficiency of the provincial and local spheres, reduction of economic disparities, and promotion of stability and predictability.

The factors taken into account for the 2004 division of revenue have been informed by the Growth and Development Summit (GDS) and the ten-year review ("Towards a Ten Year Review") published for discussion by the Policy Co-ordination and Advisory Services Unit in the Presidency (PCAS). The 2004 MTEF has a renewed focus on strengthening investment and job creation, reducing poverty and supporting vulnerable groups, education and skills development, creating sustainable communities, and enhancing service delivery. This focus is in line with the ten-year review, which promotes four key ideas for the next ten years:

- A Framework of encompassing interest – a social compact
- Improving the performance of the state
- Addressing the consequences of the social transition
- Improving regional environment and implement NEPAD.

The *2004 Budget Review* sets out in detail how the constitutional issues and the ten-year review are taken into account for the 2004 division of revenue. It focuses on the economic and fiscal policy considerations, revenue issues, debt and financing considerations and expenditure plans of government, and aspects of provincial and local government financing, are discussed in chapters 6 and 7. Readers are thus advised to read this annexure with the *2004 Budget Review*. One of the key challenges facing all delivery programmes is to address the problems of the 'second economy', deal with issue of income poverty, unemployment and social exclusion. These issues are addressed through the Expanded Public Works Programme, expansion of the social safety net by extending Child Support Grant up to the age of 14 years, skills development, agricultural support for land redistribution programmes, and various other policy initiatives as outlined in the *2004 Budget Review.* Below is a summary of the Constitutional principles that informed the division of revenue.

National interest and the division of resources

A stable macroeconomic environment, strong economic growth, reduced income poverty, eradicating social exclusion, developing a sense of belonging among our citizens, low unemployment, reduced crime, addressing HIV and Aids and an 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 over the first decade of democracy include the prioritisation of the social sectors (education, health and social welfare), expansion of the social safety net, nutrition (including food security), housing, sustainable infrastructure development (at provincial and municipal level) and rural development.

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. Most of this borrowing went into financing Government programmes across the three spheres of government. With inflation being within the target range of 3-6 per cent, debt service costs have stabilised releasing more resources for non-ineterst spending. The continuous commitment to fiscal discipline will contribute to lower debt service costs in the future. Chapter 5 in the *2004 Budget Review* deals with financing the budget deficit and debt service costs.

National Government needs and interests

The Constitution assigns exclusive and concurrent powers and functions to each sphere of government. The national government is exclusively responsible for those functions that transcend provincial boundaries and serve national interest, 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, employment creation and programmes to alleviate poverty. 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. National government is responsible for policy development, regulation and monitoring of functions shared with provincial and local government.

Provincial and local government basic services

Sub-national governments have significant autonomy to allocate resources to meet basic needs and respond to provincial and local priorities. The division of revenue provides equitable share increases to provinces and local government to give effect to government's commitment in progressively meeting basic needs. This year's division of revenue aims to further strengthen social service delivery, including scaling up HIV and Aids treatment programmes, further take up of the Child Support grant, agriculture support to farmers emerging from the land reform programme, accelerated rollout of free basic electricity, water and sanitation to poor households. To improve access to free basic services and deal with backlogs in basic municipal infrastructure, all funding for municipal infrastructure have been consolidated into the Municipal Infrastructure Grant (MIG).

Fiscal capacity and efficiency

The Constitution assigns the primary revenue-raising powers to the national sphere. Despite the promulgation of the *Provincial Tax Regulation Process Act* (No. 53 of 2001), provinces still have limited revenue-raising capacity relative to the resources required to deliver provincial functions that do not lend themselves to self-funding or cost recovery. To compensate for this, provinces receive the largest share of nationally raised revenue. Local governments finance most of their expenditure through property rates, user charges and fees. It is recognised, however, that rural municipalities raise significantly less revenue than the urban metro municipalities.

The implementation of the *Public Finance Management Act* (No. 1 of 1999), has improved the fiscal efficiency of provincial governments, and the Municipal Finance Management Act (No 56 of

2003) is expected to do the same for municipalities over the next few years. Fiscal efficiency indicators are still being developed, as budget and expenditure classifications are standardised to allow for comparisons between various governments. Once more accurate data on these indicators become available, it will be possible to take more explicit account of these in the determination of the division of revenue.

Developmental needs

South Africa has strong features of a developing country, and needs to take active steps to ameliorate the worst effects of apartheid as the foundation for a competitive economy are built. The commitments of the Growth and Development Summit (GDS) represent a significant step to ensuring that social and economic deficits are addressed over the next ten years. In order to deal with the development needs of provinces and municipalities, changes are considered in the equitable share formulae for provincial and local government and in specific conditional grants. In particular, the various infrastructure grants and growing capital budgets aim to boost economic and rural development of provinces and municipalities. Government's Integrated Sustainable Rural Development Strategy (ISRDS) and Urban Renewal Programme (URP) forms part of its strategy of promoting balanced development. Developmental needs are taken into account in the vertical division of revenue, which explains the growth in the provincial and local government shares of nationally raised revenue, and in the horizontal division within each sphere, through the formulae used for dividing the grants among municipalities and provinces.

Economic disparities

Economic disparities exist between and within provinces and municipalities. The equitable share formulae recognise that provinces and municipalities have different demographic and economic profiles and markedly different levels of economic development. The equitable share formulae are redistributive. In particular, Government has increased allocations to invest in economic infrastructure like roads, and social infrastructure like schools, hospitals and clinics, in order to stimulate economic development and job creation. The prioritisation of nodal areas in the allocation of local government grants seeks to address disparities among municipalities.

Obligations in terms of national legislation

While the Constitution confers significant autonomy on provincial governments to determine provincial priorities within a national policy framework 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 are accommodated. The budget process allows for these national policies, and norms and standards to be incorporated into sub-national budgets.

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

The 2003 session of Parliament has considered significant national legislation like the National Health Bill, Social Assistance Bill and Social Security Agency Bill . These bills, once enacted, will have an impact on future obligations on the provincial and local spheres of government. Given that they are still in the process of being enacted or implemented, such impact will only be fully taken into account for the 2005 MTEF, once the responsible sectors have presented specific proposals.

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. Provincial and local government equitable share allocations are based on projections of revenue to be raised nationally. These allocations are protected. In the event that nationally raised revenue falls short of the estimates, the equitable share will not be adjusted downwards. All conditional grants to be allocated to provinces and local government are allocated on a three-year term to enable the two spheres to undertake forward planning of programmes funded through these grants. The Bill also requires provincial governments to publish all their grants to local government per municipality.

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. Any amendments to the payment schedule require a fair and transparent process. 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

When Government introduced multi-year rolling budgets six years ago, it also introduced the concept of a contingency reserve. Government has flexibility to respond to emergencies or other needs through a contingency reserve that provides a cushion for “unforeseeable and unavoidable” expenditure. Sections 16 and 25 of the *Public Finance Management Act* make specific provision in relation to allocation of funds to deal with emergency situations while section 30(7) deals with adjustment allocations in respect of unforeseeable and unavoidable expenditure. For example, the impact of the drought has been taken into account in this way in 2003/04, as a further R250 million was allocated over and above the R250 million made available during the adjustments budget. Given expectations that the drought will persist into 2004/05, the contingency reserve is adjusted upwards for the 2004 MTEF.

Part 2: Response to the Financial and Fiscal Commission recommendations

Section 214 of the Constitution and Section 9 of the *Intergovernmental Fiscal Relations Act* (Act 97 of 1997) requires the Financial and Fiscal Commission (FFC) to make recommendations in April every year on the division of revenue for the coming budget. The FFC complied with this obligation by tabling its submission entitled *“Towards a Review of the Intergovernmental Fiscal Relations System”* for the 2004-2007 MTEF in Parliament in April 2003. The Constitution and section 10 of the *Intergovernmental Fiscal Relations Act* also requires national government to take account of these recommendations of the FFC when determining the division of revenue between the three spheres of government. This part of the explanatory memorandum sets out the response of the national government to these recommendations.

The FFC recommendations focus on two sets of issues. The first set of recommendations deals with the division of revenue for each sphere of government. The main issue for the national sphere is the financing of HIV and Aids. Regarding provinces, the recommendations centre on the various components or elements of the provincial equitable share formula, and the location of funding for social security grants and the measurement of fiscal capacity. On local government, the recommendations focus on the funding of institutional capacity - *the I component*, and call for an evaluation of funding of rural and urban nodes, and propose a differentiated approach to municipalities. Government responds to this set of recommendations in detail.

The second set reviews the intergovernmental fiscal relations system in South Africa, and covers expenditure assignment, performance measurement, poverty targeting and the provision of constitutionally mandated basic service. Given that these proposals are general proposals and not directly related to the 2004 division of revenue, Government responds to these in less detail.

In examining Government's response to the FFC recommendations, it should be noted that Government accepted last year the need for a *comprehensive review* of the fiscal framework for provinces and municipalities. It was hoped that the review would have been completed for the 2004 Budget, but this has not been possible for a number of reasons, including the need to fully incorporate the results of Census 2001, and the impact of shifting the social grant function from provinces to national and restructuring the electricity distribution industry. The restructuring and shifting of functions will have significant fiscal implications for provincial and local government budgets. It is hoped that the comprehensive review will be completed in time for the 2005 Budget. The review will examine the formulae for the equitable share and conditional grants for provincial and local government spheres, as well as their taxation and borrowing powers, and ensure that these are consistent with their expenditure functions. Many of the more significant proposals of the FFC will be considered as part of the review.

FFC recommendations on provinces

FFC proposals on HIV and Aids funding and health conditional grants

The FFC makes three proposals to accelerate the implementation of HIV and Aids as priority programmes. Firstly, it proposes that current national programmes directed at the procurement of condoms, awareness campaigns and specific research efforts should be retained and strengthened. Secondly, it proposes that social spending outcomes resulting from the increases in the equitable share targeted at HIV and Aids programmes be evaluated to establish their effectiveness. Lastly, it proposes that all existing health conditional grants be reviewed with a view to converting them into a more efficient conditional grant mechanism with a clear and coordinated policy framework to be established at the national level.

Government's response

Government's current approach to the funding of HIV and Aids programmes is largely in line with the FFC proposals. The proposed continuation of current programmes funded through earmarked grants is supported by Government, especially where these programmes are demonstrating a high degree of effectiveness, and also because this appears to be an appropriate way to fund such programmes at this stage. Additional allocations to the HIV and Aids grant in health are consistent with this approach.

Whilst the reviewing of current HIV and Aids conditional grants for effectiveness and co-ordination is always welcome, it is not clear at this stage how these grants would be consolidated into a single efficient conditional grant mechanism, given the expected outcomes of the current conditional grants, especially at a stage where the national policy framework on HIV and Aids is relatively new. However, this proposal will be explored as part of the comprehensive review of the provincial fiscal framework.

It is also difficult to evaluate the impact of current spending on HIV and Aids financed through the equitable share for a number of reasons. One of the reasons for national government increasing the equitable share allocation to provinces for the 2003 MTEF was to expand HIV and Aids programmes. However, it is not always possible to separate all costs associated with HIV and Aids from other costs (for example, costs within hospital programmes). Secondly, because the additional funds currently complement existing programmes, they are likely to have a higher impact in provinces where the programmes were already running effectively with the necessary infrastructure. In trying to understand the efficacy and effectiveness of HIV and Aids programmes, it is perhaps more appropriate to consider a comprehensive approach that takes account of what is currently being done, and propose appropriate responses from a policy and funding perspective.

The FFC also reviews the health conditional grants. It concludes that the National Tertiary Services grant 'does not bear any direct relationship to the removal of the spillover problem' [1] nor does it appear to have been costed appropriately. Further, the Health Professional Training and Development Grant is 'incorrectly specified' and 'overcosted' as medical students 'only cost the public hospital budget an additional R142 million a year'. While agreeing with certain aspects of the FFC's observation and the view that the health grants need to be reviewed, Government believes this should be done with the overall review for the 2005 MTEF. National government has resolved that the Departments of Health, Education and National Treasury undertake a comprehensive review of the funding of academic hospitals, and its link to the Tertiary Services grant. Such a review must also inform Government on the long-term vision for such hospitals and for tertiary services, their distribution between provinces, the restructuring required to effect such transformation, and the link to the financing of academic hospitals and university medical faculties. The review will also inform the future appropriateness of the equitable share formula and conditional grants, with a view to rationalising the number and size of health conditional grants, and the distribution formulae for any grants recommended through the review. The health sector will also finalise the Modernisation of Tertiary Services Project, which is examining a ten-year framework for future provision of highly specialised services. The outcome of these two projects will inform Government's approach to future funding of tertiary services from 2005 onwards.

In terms of the FFC proposal regarding the Integrated Nutrition Programme, Government has already taken steps to shift the Primary School Nutrition Programme (PSNP) component of the Integrated Nutrition Programme (INP) to the education sector. The remaining part of the INP grant is to be phased out in 2005/06.

FFCs proposals on the education component of provincial equitable share formula

The FFC proposes that the formula used to allocate the education component of the equitable share be revised to phase out the double weighting of 'school age' children. It argues that the double weighting penalises poorer provinces with the largest number of "out of age" learners. It further reiterates its proposal that the formula used to allocate the education component of the provincial equitable share formula be adjusted to incorporate the reception year (Grade R). In addition, the provincial allocation of funds should be based on a poverty-weighted count of the number of children aged five and six in each province.

The FFC further recommends that Government establish a conditional grant programme for the financing of education programmes for improving adult literacy and numeracy.

Government's response

Government notes that the 2002 enrolment figures and the Census 2001 show that the out-of-age enrolment problem is no longer significant. However, the trends in enrolment are not stable in some provinces, raising questions about their accuracy. This makes the school-age cohort variable a 'stabiliser' within the education component. Therefore the current elements and weightings will be retained for the 2004 Budget, but examined as part of the review for the 2005 Budget.

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[1] See page 66 of the FFC submission on the Medium-Term Expenditure Framework 2004-2007: "*Towards a Review of the Intergovernmental Fiscal Relations System*"

The Early Childhood Development (ECD) grant is phased out, and the education component in the equitable share formula has been expanded for the 2004 Budget to cover grade R by adjusting the age cohort to 5 – 17.

The funding of ABET is more difficult as it is not known beforehand what the likely uptake of the programme will be for purposes of determining allocations. This matter will be explored as part of the review of the equitable share formula.

FFCs proposals on the health component of provincial equitable share formula

The FFC proposes that provincial population growth rates be incorporated into the health care component of the provincial equitable share formula. It also proposes that the age and gender variation in the population be taken into account when determining the relative need for health services. An acceptable index should be constructed making use of international and domestic data. It further proposes that the current weighting of total medical scheme populations be reviewed and that the data used be based annually on the best available estimate, which could entail combining the latest October Household Survey information, averaged for a reasonable number of years.

Government's response

The updating of population data regularly has not been possible in the past because of the lack of reliable estimates per province, and the absence of data on interprovincial migration trends. It is unclear at this stage whether such information will be available and more reliable over the next few years. If such information were to be available it would be used.

The proposal to replace the current medical aid versus non-medical aid utilisation rates with alternative utilisation rates is being explored. However, reliable information on such utilisation rates is not readily available. The information from the Registrar of Medical Aid Schemes has also been considered, but their information does not contain provincial breakdowns on medical aid membership. It is therefore not possible to implement these proposals at this stage.

FFCs proposals on social development component of provincial equitable share formula

- The FFC reiterates its proposal that social security grants be budgeted for and funded at a national level to avoid the crowding out of the other provincial service delivery mandates. It further proposes that
- Populations of grant recipients in the current system should more closely reflect the actual take-up of the three grants in the provinces
- The overall allocation to welfare in the current system be revised to reflect more accurately the share of aggregate provincial spending on social development
- The allocation to welfare in the provincial equitable share formula distinguishes between social security grants and welfare services, and assigns amounts to each. The allocation for welfare services could be based on an indicator such as the proportion of the population below a predetermined poverty level
- Consideration be given to the ways in which the existing top-down methodology for allocating the social development share among provinces can be revised so that it more closely reflects the relative needs of the provinces.

Government's response

The FFC proposals regarding this component should be viewed against the significant developments relating to the social development function, which are already being implemented by government, because they respond to some of the concerns raised by the FFC.

Two bills on the establishment of a National Social Security Agency (South African National Social Security Bill and amendments to the Social Assistance Act) have already being tabled in Parliament, to facilitate the shifting of social security payments to the national sphere.

Government is also concerned at the rate at which increases in social grant spending continue to apply significant pressure on provincial budgets, and on other provincial functions like education and health, in particular. The FFC proposal to raise weighting for social security grants (or even social development) in the provincial equitable share formula will not resolve the problem of social security expenditure squeezing out other provincial functions.

FFCs overall proposals on the provincial equitable share formula

The FFC proposes that the shares of the different components in the formula should ultimately be determined according to explicit policy guidelines based on minimum norms and standards.

Government's response

These proposals are quite similar to the costed-norms proposal presented by the FFC in previous years. The previous response of the national government remains relevant in this respect. For instance, Government took a very clear view (refer to pages 231-235 in *Annexure E* in the *2001 Budget Review*) on why it could not adopt a costed norms approach when it was initially proposed for both technical reasons and due to its irreconcilability with certain principles underpinning the intergovernmental system. Instead of a tool for allocations, Government encouraged the use of a costed norm model as a tool for analysing expenditure. This viewpoint is still held by Government.

However, with regard to specific proposals on the formula as a whole or its components, the national government believes this should be done as part of the review of the equitable share formula for the 2005 Budget process, taking into account the results of Census 2001. Government will consider specific proposals from the FFC on the formula during this review process.

Local government proposals

FFC's proposals on local government revenue capacity and the equitable share formula

The FFC proposes a number of issues that must be dealt with in respect to the local government equitable share formula, including:

- Establishing the role of municipalities in areas such as health care, economic development and the provision of free basic services
- Studying the structure of actual and potential revenues, considering the new demarcation and restructuring of electricity and water
- Exploring the relationship between conditional grants and the equitable share formula.

Government's response

Government supports the FFC proposals and recognises the need for a comprehensive review of the local government fiscal framework. This review, which covers the equitable share and conditional grants, as well as other taxes and levies in addition to property rates is currently under way, and it is hoped that these will be finalised in time for the 2005 Budget. Government agreed last year that this review is necessary in the light of the 2000 demarcation, 2003 shifting of functions between district and local municipalities, and impending restructuring of electricity.

To the extent that Government had to clarify the functions of municipalities, it gazetted (Government Gazette No. 24228) on 3 January 2003, the functions of category B and C municipalities, including different roles of municipalities in performing functions like health, economic development and provision of other services.

FFC's proposals on municipal institutional capacity

The FFC proposes that the Institutional (I) element of the local government equitable share formula and capacity-building conditional grants to municipalities be assessed to ensure that it reflects the capacity needs of municipalities. In addition, it points out that the allocations of the *I-Grant* to district municipalities are determined by the same formula used to allocate the *I-Grant* to local municipalities, which suggests absence of targeting of the *I-Grants* to district municipalities according to size or economic condition.

Government's response

Government agrees that both the institutional element and capacity-building grants be assessed, but believes that this should be part of the review of the local government fiscal framework for the 2005 Budget. Government is also mindful of the differences between district and local municipalities, and the need for the local government equitable share formula to take account of the specific functions performed by them. However, since these functions differ for different district and local municipalities, more detailed criteria are required for all the components of the equitable share transfer.

With regard to capacity-building conditional grants, steps are being taken in 2003/04 to limit the size of conditional grants, and ensure that all such grants are transferred directly to municipalities, so that their efficacy is increased. Capacity building grants will increasingly be assessed in terms of outputs and outcomes.

FFC's proposals on financing development nodes

The FFC proposes an explicit policy to target funds to the development nodes. In this regard it proposes that:

- The effectiveness of the Integrated Sustainable Rural Development Strategy (ISRDS) and Urban Renewal Programme (URP) be carefully evaluated. This should include the collection of data on development indicators within nodes, so as to inform nodal policy development and implementation.
- Funding for the urban and rural development nodes should not come from the local government equitable share allocation.

Government's response

Government believes that the FFC is raising valid issues on evaluating the ISRDS and URP programmes, and whether they are best funded through the equitable share, as the equitable share is designed to treat municipalities uniformly, taking account of basic needs and assigned functions. However, it must be recognised that current equitable share transfers still fund many transitional programmes, particularly where municipalities lack capacity to implement basic services like water to poor rural households. For the medium- to long-term, government supports the approach of the FFC on the equitable share grant, but believes that transitional funding arrangements are necessary and can only be phased-out over a few years. Government will consider the case for funding developmental nodes for ISRDS and URP from the national share, as part of comprehensive review of the local government framework for the 2005 Budget.

Government also agrees that all these programmes be continuously evaluated through performance and development indicators. Current reporting on these programmes focuses on process and management outputs, rather than on performance or specific projects.

FFC's proposals on the differentiated approach to municipalities

The FFC proposes that consideration should be given to developing a differentiated approach to municipalities in areas such as borrowing, revenue sources, and municipal service partnerships.

Government's response

Current pieces of legislation such as the Municipal Finance Management Act (No 56 of 2003) and the Municipal Systems Act (No 32 of 2000) already provide for a differentiated approach to municipalities based on predetermined criteria.

Government is considering developing differentiated (and asymmetric) approaches to municipalities based on capacity. However, as the FFC points out, it is difficult to develop one system of classification that could be used for a variety of purposes. The 'application of different classification systems to suit different needs'[2] will require each sector to develop such systems (e.g. for water services, electricity), but will also need to ensure that such systems are compatible with the intergovernmental fiscal system. The problem is complicated by the fact that the weakest capacitated municipalities are invariably unable to provide good quality information, on their challenges and performance.

FFC recommendations on intergovernmental system

The bulk of the FFC's proposals on the intergovernmental system are largely work-in-progress research, and are intended for implementation in the medium to long term. These proposals are a welcome contribution towards assessing the intergovernmental fiscal system for the first decade of democracy, and to propose improvements for the next decade. The proposals relate to expenditure assignment, costed-norms, constitutionally-mandated services, performance management, funding instruments for poverty-alleviation programmes, and building institutional capacity.

Government's response

These proposals on the intergovernmental system are separate from the division of revenue proposals, and are for wider debate and discussion, so the national government response should be seen as its first response to this discussion, which should be further debated in Parliament and all legislatures as part of the ten-year review process.

Government supports the FFC in seeking greater certainty with regard to what functions each sphere of government are expected to perform as this is necessary for any system where tax and budget powers are divided between different spheres of government, and for the division of revenue process. However, the expenditure assignment process is complex requiring co-operation between spheres of government. This is particularly the case in South Africa, as most delivery-type functions are shared between spheres of government. The only purely exclusive functions are

[2] See page 108 of the FFC submission on the Medium-Term Expenditure Framework 2004-2007: "*Towards a Review of the Intergovernmental Fiscal Relations System*"

often national functions like defence or foreign affairs. Most other functions (both concurrent Schedule 4 and exclusive Schedule 5 functions in terms of the Constitution) are almost always shared in terms of policy-making, planning and budgeting. This is the case for school education, health services, social development, housing, roads, public transport, water, electricity and agriculture. The exact assignment of such functions requires more discussion in sectoral intergovernmental forums like MinMECs, as invariably, these have budgetary implications and involve tradeoffs with other sectors. To this extent, it is important that the implementation of basic delivery responsibilities for key service functions is clearly determined between spheres of government.

The FFC proposals also focus on the funding of poverty-alleviation programmes. Government undertook a review of these programmes and has decided to phase most of them into the equitable share or into the infrastructure grants. With regard to water provision and housing, national government notes that it is much more difficult to determine how functions are to be shared between local and other spheres of government, as capacity of various municipalities differs and may require asymmetric approaches. However, government accepts that water provision with regard to domestic consumption is largely a local function, and for this reason is transferring water schemes from the national government to municipalities. Financing mechanisms are adjusted accordingly. The issue of housing is more complex, as the Constitution makes it a concurrent national/provincial function, but not a local function. Housing legislation does, however, allow for municipalities to be accredited in order to perform the housing function, but progress in this regard has been slow. Government will review these specific functions to the extent that greater certainty and clarity is required.

The FFC proposals also focus on the re-assignment of social grants. Government already accepts this proposal, and legislation to this effect is before Parliament. The legislation sets up a National Social Security Agency to administer social grants. It is not clear at this stage how such an agency can be made accountable to both national and provincial governments as proposed by the FFC. It will take a number of years to implement the new legislation after it is enacted.

The FFC proposal on constitutionally mandated basic services is noted. It is worth noting that both the vertical division of revenue and provincial and local government formulae are predicated on the premise that each sphere should have sufficient funds to perform the functions assigned to it by the Constitution. Further, where possible and to the extent that data are available, the equitable share and conditional grant formulae take explicit account of certain basic services.

The FFC proposals also make suggestions on policy, delivery and financial output indicators. The issue of performance, accountability and co-ordination is a major priority for national government. These objectives are given effect in legislation like the Public Finance Management Act (PFMA), the Municipal Systems Act and the Municipal Finance Management Act (MFMA), which focus on outputs, outcomes and performance. Government has also taken a number of other steps such as designing performance measures and targets, and implementing performance agreements to improve the system of accountability. These measures are designed to ensure that resources are used efficiently, in order to encourage each government to deliver services efficiency, and reduce wastage and inefficiency. Government has progressed to developing measures for each major concurrent sector, for education, health, social development, housing, roads and public works. The challenge facing each sector is to develop appropriate measures, using the current system of strategic and performance plans, budget documents and annual reports.

Part 3: Fiscal Framework for 2004 MTEF

Fiscal framework

Table E1 presents medium-term macroeconomic forecasts for the 2004 Budget. It sets out the growth assumptions, fiscal projections and policy targets on which the fiscal framework is based.

Table E1 Medium-term macroeconomic assumptions, 2003/04 – 2006/07

	2003/04		2004/05		2005/06		2006/07
R billion	2003 Budget	2004 Budget	2003 Budget	2004 Budget	2003 Budget	2004 Budget	2004 Budget
Gross domestic product	1 234,6	1 223,2	1 344,3	1 331,8	1 466,6	1 455,6	1 592,6
Real GDP growth	*3,4%*	*1,6%*	*3,8%*	*3,3%*	*4,0%*	*3,6%*	*4,0%*
GDP inflation	*6,6%*	*4,7%*	*4,9%*	*5,4%*	*4,9%*	*5,5%*	*5,2%*
National Budget Framework							
Revenue	304,5	300,3	331,0	327,0	361,2	360,3	394,0
Percentage of GDP	*24,7%*	*24,6%*	*24,6%*	*24,6%*	*24,6%*	*24,7%*	*24,7%*
Expenditure	334,0	331,7	363,3	368,9	395,6	404,7	439,1
Percentage of GDP	*27,1%*	*27,1%*	*27,0%*	*27,7%*	*27,0%*	*27,8%*	*27,6%*
Budget deficit	-29,5	-31,4	-32,4	-41,9	-34,4	-44,4	-45,1
Percentage of GDP	*-2,4%*	*-2,6%*	*-2,4%*	*-3,1%*	*-2,3%*	*-3,0%*	*-2,8%*

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 service obligations of R50,4 billion, R53,9 billion and R57,9 billion are projected for the three MTEF years, and a contingency reserve amount of R2,5 billion, R4,0 billion and R8 billion is set aside. Once these allocations are deducted, the total allocated to be shared between the three spheres amounts to R315,9 billion, R346,7 billion and R373,1 billion over the three MTEF years. This pool of revenue is divided between national, provincial and local spheres.

Table E2 Division of revenue between spheres of government, 2000/01 – 2006/07

R million	2000/01 Outcome	2001/02 Outcome	2002/03 Outcome	2003/04 Revised	2004/05 Medium-term estimates	2005/06	2006/07
National departments	73 178	87 705	99 091	110 494	120 597	131 047	139 677
Provinces	108 899	121 099	136 925	161 476	181 130	199 704	216 344
Equitable share	*98 398*	*107 460*	*123 457*	*144 743*	*159 971*	*173 852*	*186 392*
Conditional grants	*10 501*	*13 638*	*13 468*	*16 733*	*21 158*	*25 853*	*29 953*
Local government	5 536	6 520	8 706	12 390	14 245	15 916	17 091
Equitable share	*2 415*	*3 184*	*4 187*	*6 350*	*7 678*	*8 643*	*9 365*
Conditional grants	*3 121*	*3 336*	*4 519*	*6 039*	*6 568*	*7 272*	*7 726*
Non-interest allocations	**187 613**	**215 324**	**244 721**	**284 359**	**315 972**	**346 667**	**373 112**
Percentage increase	*10,1%*	*14,8%*	*13,7%*	*16,2%*	*11,1%*	*9,7%*	*7,6%*
State debt cost	46 321	47 581	46 808	47 326	50 432	53 986	57 945
Contingency reserve	–	–	–	–	2 500	4 000	8 000
Main budget expenditure	**233 934**	**262 905**	**291 529**	**331 685**	**368 904**	**404 653**	**439 057**
Percentage increase	*8,9%*	*12,4%*	*10,9%*	*13,8%*	*11,2%*	*9,7%*	*8,5%*
Percentage shares							
National departments	*39,0%*	*40,7%*	*40,5%*	*38,9%*	*38,2%*	*37,8%*	*37,4%*
Provinces	*58,0%*	*56,2%*	*56,0%*	*56,8%*	*57,3%*	*57,6%*	*58,0%*
Local government	*3,0%*	*3,0%*	*3,6%*	*4,4%*	*4,5%*	*4,6%*	*4,6%*

The revised fiscal framework aims at further strengthening social service delivery, including:

- Scaling up of HIV and Aids treatment programmes through the roll out of antiretroviral drugs alongside current prevention measures

- A renewed focus on employment creation through an Expanded Public Works Programme and a series of interventions to strengthen the skills base and empower communities
- Support for provincial economic development programmes with high potential for creating employment opportunities, with specific focus on enabling provinces to scale up farmer support programmes to land reform programme beneficiaries
- Extending social assistance through enhanced income support to the poor (including completion of the take up of 11, 12 and 13 year old children) and improvements in the social grant payment system
- Enhanced spending on education programmes, specifically relating to the rollout of the Early Childhood Development Programme, and other inputs needed to further strengthen the quality of school education especially in poor communities
- Accelerate the rollout of free basic electricity, water, refuse removal and sanitation to poor households and investment in municipal infrastructure to create sustainable local communities
- Consolidate local government financial management and budget reforms as envisaged in the Municipal Finance Management Act (No. 56 of 2003)
- Expanded capacity in the safety and security sector in support of the sector policing strategy and the establishment of a new Protection and Security Services Division
- Taking core administrative services to citizens, particularly in rural areas where access is limited
- Supporting South Africa's ongoing commitment to actively promote peace in Africa and support regional trade and development.

The new priorities, and expansions of previous year's programmes, are accommodated through reprioritisation and growth in the resource envelope. Cabinet determines the division of revenue between spheres of Government using the previous year's baseline division as a point of departure and taking account of ongoing commitments, current and new policy priorities, and the FFC recommendations.

Both the shares for provincial and local government allocations increase significantly, with the provincial allocation increasing from 56,8 per cent to 58,0 per cent, and the local government allocation from 4,4 per cent in 2003/04 to 4,6 per cent in 2006/07. The share of national government decreases from 38,9 per cent in 2003/04 to 37,4 per cent in 2006/07. Over half of the additional resources are 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 and Aids. Local government, which must provide for free basic services and expand municipal infrastructure, gets a larger slice of additional revenue than its baseline proportion.

Table E3 reflects the additional resources available over last year's baseline allocations, totalling R9,7 billion in 2004/05, R14,1 billion in 2005/06 and R20,6 billion over the new baseline for 2006/07. The additional funds are divided between the spheres depending on which sphere is responsible for the prioritised functions.

Table E3 Changes over baseline, 2004/05 – 2006/07

	2004/05	2005/06	2006/07[1]
National	3 248	4 951	6 023
Provincial	5 458	7 880	13 001
Local	1 000	1 300	1 600
Allocated expenditure	**9 706**	**14 131**	**20 624**

1. The assumed baseline for 2006/07 is the 2005/06 baseline plus 6 per cent.

Table E4 sets out Schedule 1 of the Division of Revenue Bill that reflects the *legal* division of revenue between the three spheres. In this division, the national share includes all conditional grants to the other two spheres in line with section 214(1) of the Constitution, and the provincial and local government allocations reflect their equitable shares only.

Table E4 Schedule 1 of the Division of Revenue Bill, 2004/05 – 2006/07

Sphere of government	Column A	Column B	
	2004/05	Medium-term forward estimates	
R million	Allocation	2005/06	2006/07
National [1, 2]	201 255	222 158	243 301
Provincial	159 971	173 852	186 392
Local	7 678	8 643	9 365
Total	**368 904**	**404 653**	**439 057**

1. National share includes conditional grants to provinces and local spheres, debt service cost and the contingency reserve.

2. The direct charges for the provincial equitable share are netted out.

Nationally-raised revenue is distributed between spheres in accordance with the Division of Revenue Act and the Constitution. The national equitable share is divided between national departments through an Appropriation Act. Provincial equitable shares are direct charges on the National Revenue Fund and flow directly into Provincial Revenue Funds, where provincial legislatures appropriate the funds to votes and their main divisions – in this instance, votes and programmes of provincial departments. Various local government allocations are appropriated on national votes, as the Constitution does not make them a direct charge on the National Revenue Fund. The local government equitable share is appropriated on the vote of the Department of Provincial and Local Government. The actual division of all grants (whether appropriated or a direct charge) between provinces or municipalities is in accordance with the Division of Revenue Act and this memorandum.

Part 4: Provincial Allocations

The Constitution entitles provinces to a share of nationally raised revenue. National transfers to provinces for 2004/05, comprise more than 97 per cent of provincial revenues, with provinces raising less than 3 per cent of their revenues from own sources. Of the funds that are transferred, 88,4 per cent is through the equitable share and the remaining 11,6 per cent grants flow as conditional grants. Table E5 shows all transfers to provinces for 2004/05.

Table E5 Total transfers to provinces, 2004/05

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	26 990	3 138	30 129
Free State	10 551	1 613	12 164
Gauteng	24 547	4 461	29 008
KwaZulu-Natal	33 059	3 847	36 906
Limpopo	21 789	2 164	23 953
Mpumalanga	11 606	1 208	12 814
Northern Cape	3 839	573	4 412
North West	13 270	1 591	14 862
Western Cape	14 320	2 564	16 884
Total	**159 971**	**21 158**	**181 130**

Provincial equitable share

The provincial equitable share allocation is used to fund the bulk of public services rendered by provinces. It is divided between provinces on the basis of the provincial equitable share formula. The provincial equitable share is R159,9 billion in 2004/05, R173,9 billion in 2005/06 and R186,4 billion in 2006/07.

The equitable share formula

Updates of data in the equitable share formula are effected on an annual basis, depending on availability of official data. Government committed itself to a major review of the formula for the 2004 Budget. Though the review process has begun, the process could not be completed in time as new data from the Census 2001 and other data sources were published towards the end of the budget allocation process. Government agreed to retain the structure of the provincial equitable share formula for the 2004 Budget, but to update for Census 2001 and other data. The more wide-ranging review will apply to the 2005 Budget, and will cover aspects pertaining to the structure of the formula, weights of components and other economic development and poverty-related policy considerations. The review is also timed to coincide with the imminent change in the financing and administrative arrangements relating to the delivery of social security grants.

For the 2004 Budget, a number of data updates to the formula are effected. The *education component* is updated by replacing average enrolment data with 2000-2002 enrolment figures and by lowering the school age cohort to cover the 5 – 17 school age cohort (by using Census 2001 data) to take account of Early Childhood Development. The *basic component*, which uses population shares, is updated with 2001 Census data. The remuneration data currently used in the *economic activity* component is replaced with Gross Domestic Product by Region (GDP-R) data.

The equitable share formula comprises seven components or indices of relative demand for services between provinces and takes into account particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. The provincial equitable share formula consists of the following components:

- An education share (41 per cent) based on the size of the school-age population (ages 5-17) and the average number of learners enrolled in public ordinary schools for the past three years
- A health share (19 per cent) based on the proportion of the population with and without access to medical aid
- A welfare component (18 per cent) based on the estimated number of people entitled to social security grants – the elderly, disabled and children – weighted by using a poverty index derived from the Income and Expenditure Survey

- A basic share (7 per cent) derived from each province's share of the total population of the country
- A backlog component (3 per cent) based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities and the distribution of the rural population
- An economic output component (7 per cent) based on Gross Domestic Product by Region (GDP-R) data
- An institutional component (5 per cent) divided equally among the provinces.

Table E6 shows the current structure and distribution of shares by component. 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 for the purpose of allocating funds. Provincial Executive Committees have discretion regarding the departmental allocations for each function.

Table E6 Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institu-tional	Backlog	Target shares
Weighting	*41,0*	*19,0*	*18,0*	*7,0*	*7,0*	*5,0*	*3,0*	*100,0*
Eastern Cape	17,3	17,0	19,6	14,4	8,1	11,1	20,7	16,6
Free State	6,0	6,5	7,1	6,0	5,4	11,1	5,6	6,5
Gauteng	13,6	14,7	13,9	19,7	33,4	11,1	5,0	15,3
KwaZulu-Natal	22,8	21,7	19,6	21,0	16,5	11,1	23,0	20,9
Limpopo	15,0	13,3	13,7	11,8	6,6	11,1	22,9	13,7
Mpumalanga	7,6	7,2	6,5	7,0	6,9	11,1	8,5	7,4
Northern Cape	1,7	2,0	2,2	1,8	2,0	11,1	1,3	2,3
North West	7,8	8,6	8,7	8,2	6,7	11,1	9,5	8,3
Western Cape	8,2	8,9	8,8	10,1	14,2	11,1	3,6	9,0
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

The phasing-in of the formula

The formula has been updated for latest available data (Census 2001, school enrolment and GDP-R) and to ensure stability in provincial budgets, Government agreed to phase in the impact of these updates over three years, from 2004/05 to 2006/07. This is mainly to ensure that none of the provinces receive an allocation lower than was previously indicated in the baseline allocations. Table E7 shows the phasing.

Table E7 Phasing in the equitable share, 2003/04 – 2006/07

Percentage	2003/04 Base shares	2004/05	2005/06 3-year phasing	2006/07
Phasing	*Year 1*	*Year 2*	*Year 3*	*Year 4*
Eastern Cape	17,0	16,9	16,7	16,6
Free State	6,6	6,6	6,5	6,5
Gauteng	15,4	15,3	15,3	15,3
KwaZulu-Natal	20,6	20,7	20,8	20,9
Limpopo	13,6	13,6	13,6	13,7
Mpumalanga	7,2	7,3	7,3	7,4
Northern Cape	2,4	2,4	2,4	2,3
North West	8,3	8,3	8,3	8,3
Western Cape	8,9	9,0	9,0	9,0
Total	**100,0**	**100,0**	**100,0**	**100,0**

Education component

The education component targets primary and secondary schooling, which accounts for roughly 80 per cent of provincial education spending. For 2004, Government has decided to retain the weightings in the 2003 Budget. Both the school-age population and enrolment numbers are used to reflect the relative demand for education services. The school-age cohort, ages 5-17, is double weighted, reflecting Government's desire to eliminate out-of-age enrolment while the average school enrolment data for 2000-2002 are single weighted. Table E8 shows the weighted target shares for the 2004 MTEF after updating the education component for new data.

Table E8 Calculation of education component

Thousands	2003/04	2004 Medium-term estimates		
	Weighted share (%)	Enrolment	School-age (5-17)	Weighted target share (%)
Weighting		*1*	*2*	
Eastern Cape	18,4	2 083	2 219	17,3
Free State	6,3	729	760	6,0
Gauteng	12,6	1 577	1 786	13,6
KwaZulu-Natal	22,0	2 706	2 946	22,8
Limpopo	15,4	1 834	1 915	15,0
Mpumalanga	7,3	910	969	7,6
Northern Cape	1,9	198	222	1,7
North West	8,0	907	1 021	7,8
Western Cape	8,0	927	1 095	8,2
Total	**100,0**	**11 870**	**12 933**	**100,0**

Health component

The health component (table E9) addresses the need for provinces to deliver primary and secondary health care 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 are more likely to use public health facilities, and are therefore weighted four times more than those with medical aid support. 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. Although there have been October Household Surveys in subsequent years, these do not improve the quality of this information and the 1995 data have been retained.

Table E9 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
Limpopo	376	4 554	13,3
Mpumalanga	392	2 409	7,2
Northern Cape	175	665	2,0
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 welfare component has two elements, the target population for the main social grants ('all grants' in Table E10) and the population in the lowest two quintiles of the income distribution ('income adjustment'). 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.

Table E10 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
Limpopo	13,0	12,1	14,8	13,0	15,8	13,7
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
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**

One reason for the more comprehensive review for the 2005 Budget is the fact that the rapid take-up of social grants has resulted in a sharp increase in the share of social welfare expenditure. The share of social development averaged 24,7 per cent for the adjusted 2003/04 provincial budgets or 29,3 per cent of the total provincial equitable share, which is substantially above its 18 per cent weighting in the formula.

Economic activity component

The economic activity component is a proxy for provincial tax capacity, directing a proportion of nationally raised revenue back to its source. It also reflects costs associated with economic activity, such as maintenance of provincial roads. In 1999, the distribution of employee remuneration replaced provincial Gross Geographic Product (GGP) figures, since remuneration comprises roughly 60 per cent of provincial GGP. For the 2004 Budget, the remuneration data are replaced with 2001 GDP-R data. Table E11 shows the new target shares for the economic activity component taking into account the 2001 GDP-R data.

Table E11 Economic activity shares

Percentage	2003/04 Remuneration of employees, 1999	2004 Medium-term estimates GDP-R, 2001
Eastern Cape	6,5	8,1
Free State	5,3	5,4
Gauteng	41,6	33,4
KwaZulu-Natal	17,0	16,5
Limpopo	3,0	6,6
Mpumalanga	4,9	6,9
Northern Cape	1,7	2,0
North West	5,7	6,7
Western Cape	14,4	14,2
Total	**100,0**	**100,0**

Backlog component

In 1999, the basic component was split into a basic share distributed by population and a backlog component. The backlog component (table E12) incorporates estimates of capital needs as drawn from the Schools Survey of Needs and the 1998 MTEF health sector 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 is available regarding its sub-components, the backlog component remains unchanged.

Table E12 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	20,7
Free State	3,8	7,8	4,4	5,6
Gauteng	10,8	6,3	1,2	5,0
KwaZulu-Natal	16,0	23,5	25,5	23,0
Limpopo	27,5	20,4	23,3	22,9
Mpumalanga	9,2	7,5	9,1	8,5
Northern Cape	1,2	1,2	1,3	1,3
North West	9,1	7,5	11,6	9,5
Western Cape	6,1	3,9	2,3	3,6
Total	**100,0**	**100,0**	**100,0**	**100,0**

Basic components

The basic component is derived from each province's share of the total population of the country. This component has been updated with 2001 Census data and table E13 shows the new weighted target share.

Table E13 Basic component shares

Thousands	2003/04		2004 Medium-term estimates	
	1996 Census population	Weighted share (%)	2001 Census population	Weighted target share (%)
Eastern Cape	6 303	15,5	6 437	14,4
Free State	2 634	6,5	2 707	6,0
Gauteng	7 348	18,1	8 837	19,7
KwaZulu-Natal	8 417	20,7	9 426	21,0
Limpopo	4 929	12,1	5 274	11,8
Mpumalanga	2 801	6,9	3 123	7,0
Northern Cape	840	2,1	823	1,8
North West	3 355	8,3	3 669	8,2
Western Cape	3 957	9,7	4 524	10,1
Total	**40 584**	**100,0**	**44 820**	**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 distributed equally between provinces, as was the in previous years. It constitutes 5 per cent of the total equitable share, of which each province gets 11,1 per cent.

Conditional grants to provinces

Schedules 4 and 5 of the Division of Revenue Bill list all conditional grants to provinces. Conditional grants are a small but significant portion of provincial revenue. These grants were introduced in 1998 to provide for national priorities and compensate provinces for cross-boundary use of services, particularly in hospital services. The current conditional grant system has been shaped by reforms introduced through successive Division of Revenue Acts since 2000. These reforms have contributed to clarifying accountability between spheres. They have also helped sharpen description of policy objectives and grant outputs, thus resulting in improved use of grants in speeding delivery, and the strengthening of Parliamentary oversight. However, the recent reports of the Auditor-General for the 2002/03 financial year indicate that many national departments do not fully comply with the Act, as their monitoring systems for such grants are 'ineffective', and the audit 'could not be satisfied that the transfer payments were utilised as stipulated'[3].

A major change in conditional grant funding is in the shift of the *Primary School Nutrition Programme (PSNP)* component of the *Integrated Nutrition Programme (INP),* from health to education. In terms of the objectives of the grant and actual spending, the grant funded actual school feeding, administration of school feeding and a range of nutrition related activities and administration in provincial health departments. From 2004 national and provincial education departments will administer the school-feeding portion of the grant, so funding has been transferred to the national Department of Education. A portion of the grant funding to other non-school feeding remains as a health conditional grant with the national Department of Health until the end of 2005/06; thereafter it is phased into the provincial equitable share.

[3] General report of the Auditor-General on the audit outcomes for the financial year ended 31 March 2003, page 94

Allocations

Table E14 provides a summary of conditional grants by sector and province for 2004/05. Conditional grants to provinces amount to R21,2 billion in 2004/05, increasing to R29,9 billion in 2006/07, an average annual increase of 21 per cent over the next three years. Seven departments administer grants, with health (R7,7 billion), housing (R4,6 billion), CSG extension (R3,7 billion) and infrastructure grants (R3,3 billion) being the largest grants.

Table E14 Conditional Grants to provinces, 2004/05

R million	Agriculture	Health	Provincial and Local Government	Provincial Infrastructure Grant	Housing	Education	Social Develop-ment	Sport and Recreation South Africa	Total
Eastern Cape	42	628	44	609	611	200	1 004	1	3 138
Free State	19	620	34	199	395	57	288	1	1 613
Gauteng	6	2 609	21	332	1 140	93	259	1	4 461
KwaZulu-Natal	41	1 209	41	706	776	211	861	1	3 847
Limpopo	33	318	24	593	381	173	640	1	2 164
Mpumalanga	24	227	24	255	304	74	298	1	1 208
Northern Cape	13	179	25	159	93	25	79	1	573
North West	32	268	24	288	430	82	466	1	1 591
Western Cape	17	1 596	24	205	460	47	213	1	2 564
Total	**227**	**7 655**	**261**	**3 348**	**4 589**	**961**	**4 108**	**9**	**21 158**

More detailed information, including the formula for each grant, is provided in the attached Appendix E1. The framework provides the conditions for the grant, the outputs expected, the allocation criteria to divide the grant between provinces, the audit outcome in 2002/03 and any other material issues to be addressed. Table E15 presents a summary of all the conditional grants listed in Schedules 4 and 5 of the Bill for the 2003 MTEF.

Health grants

Health administers 6 conditional grants, constituting about 44,3 per cent of total conditional grants to provinces. This share declines to 31,1 by 2006/07, mainly due to the rapid growth in Social Development grants. Health grants are R7,7 billion in 2004/05, and are budgeted to increase at an annual average rate of 7,5 per cent to R9,2 billion by 2006/07. The National Tertiary Services grant (NTS grant) and the Health Professions Training and Development grant (HPTD) are the largest grants administered by the national Department of Health. The HIV and Aids and Hospital Revitilisation grants grow more rapidly over the MTEF (67,5 and 18 per cent annually).

The *Comprehensive HIV and Aids grant*, in addition to other interventions, is one of the key funding streams to mitigate the impact of the disease. An amount of R1,9 billion (R300 million, R600 million and R1 billion) is added to the baseline allocation of the grant in this budget to implement a comprehensive HIV and Aids care over the three years. The grant increases from R334 million in 2003/04 to R1,6 billion in 2006/07 to support various aspects of the programme. In addition to providing for ARV rollout, the grant provides for post exposure prophylaxis for victims of sexual abuse, rollout of mother-to-child transmission prevention and targeted interventions for commercial sex workers – whilst still maintaining other HIV and Aids prevention programmes. The 2003 Adjustment Budget provided R90 million to the health sector to undertake preparatory work for the roll out of ARV.

The *Hospital Revitalisation grant* plays a key role in funding upgrading and replacement of hospital infrastructure and focuses particularly on projects in which an entire hospital is addressed. The grant includes a component aimed at improving systems for medical equipment. After a 17 per cent increase to R718 million in 2003/04 the Hospital Revitalisation grant is allocated R912 million in 2004/05 and R1 billion in 2005/06. A further R91 million is added to the grant in 2006/07 taking it to R1,2 billion. Over the next three years, the grant will fund the revitalisation of 27 hospitals, three in each province.

The *National Tertiary Services grant* (NTS grant) has declined in real terms for Gauteng and Western Cape mainly due to the anticipated scaling down of the number of hospitals offering tertiary services, and a corresponding shift of lower levels of care to community and district hospitals. However, such restructuring requires a broad strategy to shift staff, resources, assets, and a realistic phasing-in period. At a technical level, the national Department of Health and National Treasury recognise the need for a review of the funding of academic hospitals, and its link to the tertiary services grant. Such a review must also inform Government on the long-term vision for such hospitals and for tertiary services, their distribution between provinces, the restructuring required to effect such transformation, and the link to the financing of academic hospitals and university medical faculties. The review will also inform the comprehensive review of the equitable share formula and conditional grants, with a view to rationalising the number and size of health conditional grants, and the distribution formulae for any grants recommended through the review. The health sector will also finalise the Modernisation of Tertiary Services Project, which is examining a ten-year framework for future provision of highly specialised services. The outcome of these two projects will inform Government's approach to future funding of tertiary services from 2005 onwards.

The NTS grant is R4,3 billion in 2004/05, increasing to R4,8 billion in 2006/07 and targets sub-speciality service units in 27 hospitals spread across provinces. Due to historic patterns of tertiary services, Western Cape and Gauteng receive 66,3 per cent of the grant as they provide a large proportion of these sophisticated services for the benefit of the health sector countrywide.

The *Health Professions Training and Development grant (HPTD)* compensates provinces for their role in supporting teaching and training of health science students. It increases from R1,4 billion in 2004/05 to R1,5 billion in 2006/07. The largest portion is distributed to provinces according to a formula based on the number of current medical students. In the 2002 Budget, an additional developmental component was introduced to provide for a phased increase in the number of medical specialists and registrars in historically under-served provinces to address inter-provincial inequities in post-graduate training capacity. This additional component amounts to R227 million over five years. The grant is kept constant in nominal terms in 2006/07, pending completion of the review of this grant and its improved alignment with higher educational funding streams.

The *Primary School Nutrition Programme (PSNP)* component of the *Integrated Nutrition Programme (INP) shifts* to education from 2004/05. The health sector will manage a small portion of the INP which assists malnourished pre-school children under the age of five. Health retains R112 million in 2004/05 and R123 million in 2005/06 to continue with the programme for another two years after which funding for this component shifts to the equitable share formula.

The *Hospital Management and Quality Improvement grant* is allocated R142 million in 2004/05, increasing to R159 million in 2006/07. This grant facilitates a range of management development initiatives, including personnel, and procurement delegations and financial management capacity. It also supports the implementation of a range of hospital quality of care interventions specified in the national policy and can be seen as complimentary to the aims of the hospital revitalisation programme.

Table E15 Conditional grants per sector, 2003/04 – 2006/07

R million	2003/04	2004/05	2005/06	2006/07
Provincial and Local Government	**298**	**261**	**44**	**46**
Local Government Capacity Building Fund	232	220	–	–
Project Management Capacity for MIG	38	41	44	46
Disaster Management	27	–	–	–
National Treasury	**2,534**	**3,348**	**3,731**	**4,118**
Provincial Infrastructure	2,334	3,348	3,731	4,118
Provincial Infrastructure - Flood Rehabilitation	200	–	–	–
Education	**1,144**	**961**	**1,048**	**1,243**
Financial Management and Quality Enhancement	213	–	–	–
HIV and Aids	132	129	136	144
Early Childhood Development	88	–	–	–
Primary School Nutrition Programme	712	832	912	1,098
Health	**6,711**	**7,655**	**8,486**	**9,228**
National Tertiary Services	3,995	4,273	4,529	4,801
Health Professions Training and Development	1,333	1,434	1,520	1,520
Hospital Revitalisation	718	912	1,027	1,180
Hospital Construction - Academic Hospitals	92	–	–	–
Comprehensive HIV and Aids Grant	334	782	1,135	1,567
Integrated Nutrition Programme	97	112	123	–
Hospital Management and Quality Improvement	133	142	150	159
Medico-legal	9	–	–	–
Social Development	**1,654**	**4,108**	**7,362**	**9,774**
HIV and Aids (Community-Based Care)	66	70	74	79
Child Support Extension	1,200	3,650	6,900	9,284
Food Emergency Relief	388	388	388	411
Agriculture	**36**	**227**	**290**	**345**
Land Care: Poverty Relief and Infrastructure Development	36	27	40	45
Comprehensive Agriculture Support Programme	–	200	250	300
Housing	**4,355**	**4,589**	**4,868**	**5,160**
Housing Subsidy	4,246	4,474	4,745	5,030
Human Resettlement and Redevelopment	109	116	122	130
Sport and Recreation South Africa	**–**	**9**	**24**	**39**
Mass Sport and Recreation Participation Programme	–	9	24	39
Total	**16,733**	**21,158**	**25,853**	**29,953**

Education grants

For the past three years, the national Department of Education managed grants for Financial Management and Quality Enhancement, Early Childhood Development and HIV and Aids. The Early Childhood Development and Financial Management and Quality Enhancement grants have been phased into the provincial equitable share for the 2004 Budget.

Starting this year, the education sector will be responsible for the management of the Primary School Nutrition Programme (PSNP). The PSNP is allocated R832 million in 2004/05, R916 million in 2005/06 and R1,1 billion in 2006/07.

The funding for the HIV and Aids programme for life skills education in schools increases from R120 million in 2003/04 to R144 million in 2006/07.

National Treasury grants

The provincial infrastructure grant is increased by R2,0 billion over the next three years and grows from R2,5 billion in 2003/04 to R3,3 billion in 2004/05 and is budgeted to grow to R4,1 billion by 2006/07. Over the next three years, provincial infrastructure spending, in addition to provincial own capital funding, will be boosted by R10,7 billion. This growing allocation is in line with Governments aim of stimulating rural and provincial economic development and addressing unemployment through an Expanded Public Works Programme. In addition, the growth in this grant enables Government to direct funds towards provinces with large backlogs, without neglecting provinces that have inherited higher levels of infrastructure. Provinces are expected to use these funds mainly for rehabilitation and construction of roads, schools, and health facilities and to address infrastructure needs for rural development focusing on agriculture. Provincial treasuries administer this grant and allocations are made to the line departments. In order to deal effectively with backlogs, the provincial division has been effected using a combination of the equitable share formula and backlog component.

Housing grants

The Department of Housing administers two grants. The Housing Subsidy grant provides subsidies for low-income housing, and the Human Settlement Redevelopment grant funds urban pilot projects. Following significant growth in the Housing Subsidy grant in 2002, the 2003 Budget provided an additional R373 million for inflation adjustment of subsidies. The Housing Subsidy grant increases from R4,5 billion in 2004/05 to R5,0 billion in 2006/07. The Human Settlement grant increases from R116 million in 2004/05 to R130 million in 2006/07. Past and present spending trends on these grants reflect some sluggishness. However, following the National Housing Summit held during November 2003, and with the review of the programmes to be undertaken by the Department of Housing and National Treasury, it is expected that some of the impediments to speedy and efficient delivery will be reduced or eradicated paving the way to faster housing delivery.

Department of Provincial and Local Government Grants to Provinces

The Department of Provincial and Local Government transfers two grants to provinces – Local Government Capacity Building Fund and the Municipal Infrastructure Grant – to enable provinces to assist municipalities.

The Local Government Capacity Building Fund supports institutional arrangements and assists municipalities facing service delivery challenges. This fund is allocated R220 million in 2004/05 and will be phased out in 2005/06 and consolidated into the local government equitable share.

Further, project management support is provided to municipalities through provinces to implement the infrastructure programme. This component of the grant will be reviewed in 2004/05. Provinces are allocated R41 million in 2004/05, increasing to R46 million in 2006/07.

Social development grants

The Department of Social Development manages conditional grants to extend coverage of the child support grant to children until they reach the age of 14 years, ensure food security and to bolster HIV and Aids community-based care.

The Child Support Extension grant amounts to R3,7 billion in 2004/05 increasing to R6,9 billion in 2005/06 and R9,3 billion in 2006/07 . The grant will fund the phased extension of the means-tested child support grant to children until they reach the age of 14 years. The phasing which started with 7 and 8 year old children in 2003/04, is extended to 9 and 10 year old children in 2004/05 and 11, 12 and 13 year-old children in 2005/06. These allocations also make provision for reasonable administration and payment costs as well as the carry-through cost of the phasing in.

The aim of the Food Relief grant is to provide emergency food assistance to individuals and households facing the risk of food security due to various factors such as drought or rapid rise in food prices, as was the case in 2002/03. The Food Relief grant amounts to R388 million in 2004/05, growing to R411 million by 2006/07.

The HIV and Aids Integrated Plan grant amounts to R70 million in 2004/05, increasing to R74 million in 2005/06 and R79 million in 2006/07. The main focus of this grant is to facilitate the implementation of an integrated HIV and Aids programme through home and community based care.

Agriculture grants

The Department of Agriculture has allocated R112 million to provinces over the next three years to implement the Land Care Programme from its allocation for poverty alleviation. The goal of the National Land Care Programme is to promote the sustainable use and management of natural resources. This is to encourage and empower communities to take responsibility for the management of resources in order to support food security and job creation through increased productivity. Some of the themes within the programme include: water care, soil care, veld care and junior land care.

A new grant has been introduced in Agriculture to support the implementation of the Comprehensive Agriculture Support Programme (CASP). The agriculture sector has formulated the CASP as a strategy to provide effective agricultural support and to streamline the provision of services to meet the needs of developing farmers. Increasing access to agricultural services to these farmers is critical for the performance of land reform programme, especially LRAD. Although the implementation of the land reform programme is a national competency, the provision of agricultural support services is the responsibility of provincial departments of agriculture. Without these services the national land reform programme cannot fully achieve its objective to improve food security and alleviate poverty. The sector is allocated R200 million, R250 million and R300 million over the MTEF years to enhance its capacity to support developing farmers. Agriculture will also get additional resources from the infrastructure grant for the development and rehabilitation of agriculture infrastructure. Given that livestock farming is a major activity in communal areas, the sector has prioritised dipping infrastructure, which will improve animal health and productivity of livestock farms.

Sports and Recreation

The Department of Sport and Recreation has been allocated funds to promote mass participation within historically disadvantaged communities in a selected number of development sporting activities. A grant named ‘Mass Participation in Sport’ is being introduced to enable the department to transfer funds to provinces. A total of R9 million, R24 million and R39 million have been allocated equally among provinces over the MTEF years.

Part 5: Local government allocations

The local government share increases over the next three years by R3, 9 billion over baseline (refer to table E3). These additional allocations give effect to Government’s commitment to poverty relief and job creation, including the provision of free basic services, infrastructure development and institution building.

Local government's share of nationally raised revenue increases from 4,2 per cent in 2003/04 to 4,6 per cent in 2006/07, growing from R12, 4 billion in 2003/04 to R14, 2 billion in 2004/05, an increase of 14,5 per cent. The allocation grows to R17, 1 billion by the end of the MTEF in 2006/07. Table E16 indicates national transfers to local government for the 2004 MTEF.

Table E16 National transfers to local government, 2003/04 – 2006/07

R million	2003/04	2004/05	2005/06	2006/07
Equitable share	6 350	7 678	8 643	9 365
Water and sanitation operating	1 001	858	934	991
Equitable share and related	**7 352**	**8 536**	**9 578**	**10 355**
Consolidated Municipal Infrastructure Programme	2 246	–	–	–
Water Services Project	1 102	160	139	–
Community Based Public Works Programme	262	–	–	–
Local Economic Development Fund	117	–	–	–
Sport and Recreation facilities	123	132	–	–
National Electrification Programme	230	248	258	–
Urban Transport Fund	9	–	–	–
Municipal Infrastructure Grant	47	4 446	5 193	5 987
Infrastructure	**4 137**	**4 986**	**5 589**	**5 987**
Restructuring grant	539	343	350	350
Financial management grant	211	198	199	199
Municipal Systems Improvement	151	182	200	200
Current transfers	**901**	**723**	**749**	**749**
Total transfers to local government	**12 390**	**14 245**	**15 916**	**17 091**

National allocations are divided into three major categories, namely the equitable share grant (together with the water operating grant) and conditional grants for municipal infrastructure and capacity building. The unconditional equitable share allocation is the most important national allocation, in accordance with section 214 of the Constitution, and is growing in significance relative to conditional grants. Its share rises from 53 per cent in 2003/04 to 55 per cent in 2006/07. It has also risen significantly over the last eight years, from R1,5 billion in 1995/96, rising to R9,4 billion in 2006/07 (excluding the water operating grant), or close to 6 times what it was in 1995.

The most significant change to local government allocations in 2004/05 is the progress made in the consolidation of infrastructure grants, with the establishment of the new Municipal Infrastructure Grant (MIG). The process will be completed over the next two years, by the end of 2005/06. Capacity building and restructuring grants are allocated R2,2 billion over the next three years.

National allocations are an important (and growing) source of revenue for municipalities. In 2003/04 national allocations comprised around 13,7 per cent of total local government budgets, varying from between 3 to 6,7 per cent for metros, and as high as 87,3 per cent in some districts. The shares of national allocations in total municipal budgets (table E17) also differ across provinces, ranging around 4,0 per cent in Gauteng and Western Cape to about 55,2 per cent in Limpopo.

The analysis uses as a basis the size of municipal capital and operating budgets and varies between municipalities reflecting the extent of backlogs, income distribution and fiscal capacity of municipalities, urban municipalities raising more of their own revenue, whilst rural municipalities tend to raise less of their own revenue. Major sources of own revenue include property taxes, regional service levies, user charges on electricity, water, refuse removal and other municipal services. The analysis excludes the allocations for restructuring and disasters that were recently announced.

Table E17 Transfers to municipalities, 2003/04 – 2006/07

Metropolitan and consolidated district and local municipalities	Census popu-lation, 2001	Total 2003 municipal budgets[1]	Total transfers[2]				Rand per capita Total 2003 municipal budgets[1] 2003/04	Transfers as % of budget[3] 2003/04
R thousand	thousands	2003/04	2003/04	2004/05	2005/06	2006/07		%
Eastern Cape	6 437	8 408 598	2 668 968	2 907 371	2 748 413	2 859 786	1 306	*31,7%*
Free State	2 707	4 904 217	1 176 945	1 292 262	1 111 728	1 121 298	1 812	*24,0%*
Gauteng	9 391	30 438 218	1 209 673	1 978 028	2 443 720	2 723 958	3 241	*4,0%*
KwaZulu-Natal	9 426	16 148 377	2 285 974	2 518 908	2 948 951	3 229 342	1 713	*14,2%*
Limpopo	5 498	3 290 196	1 815 694	2 060 352	2 542 093	2 774 193	598	*55,2%*
Mpumalanga	2 865	3 505 446	774 097	879 121	1 083 649	1 169 588	1 223	*22,1%*
Northern Cape	984	1 707 505	429 681	453 520	429 375	396 716	1 735	*25,2%*
North West	2 988	3 358 821	842 435	993 568	1 117 941	1 256 717	1 124	*25,1%*
Western Cape	4 524	14 483 860	594 570	680 225	805 983	845 100	3 201	*4,1%*
Total	**44 820**	**86 245 238**	**11 798 036**	**13 763 355**	**15 231 853**	**16 376 698**	**1 924**	***13,7%***

1. Includes total municipal capital and operating budgets and applies to the 2003/04 municipal financial year

2. Includes equitable share, infrastructure grants, recurrent grants and indirect grants but excluded unallocated transfers, for the national financial year.

3. Not possible to make a comparison with 2004 transfers as municipal budgets for 2004 not yet available.

All grants to municipalities are now published per municipality to enable municipalities to plan fully for their coming 2004/05 budgets, and to promote better accountability by ensuring that all national allocations are included in municipal budgets. Table E22 indicates the allocations per municipality, and table E23 does so for the equitable share and infrastructure grants.

The allocations are published for both the national and municipal financial years. The municipal financial year commences three months later than the national and provincial financial year, on 1 July. The allocation in terms of the national financial year serves as the legal appropriation requirement for national and provincial transferring departments. The allocations in terms of the municipal financial year facilitate proper reconciliation for audit purposes.

In determining the allocations for this Budget, Census 2001 data were used to update the current formula. Government is committed to conducting a review of the equitable share formula for the 2005 Budget. The challenge will be to obtain quality disaggregated municipal information.

The equitable share for local government

Background

Section 227 of the Constitution requires that an equitable share of nationally raised revenue be allocated to the local sphere of government to enable it to provide basic services and perform the functions allocated to it. The size of the equitable share allocation to the local sphere of government takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in municipalities, to the extent that such information is available for all municipalities.

The equitable share grant is an unconditional grant assisting municipalities to supplement their revenue to deliver services to poor households. Table E16 shows that the equitable share increase by R1,4 billion from the 2003/04 allocation of R6,3 billion to R7,7 billion in 2004/05.

The equitable share grant and formula were first introduced in 1998/99. It has undergone a number of changes since its inception, to take account of costs of transformation, data updates and new priorities. Transitional costs include the incorporation of former R293 town subsidies to shift functions from provinces to municipalities (2000/01), followed by R293 personnel subsidies (2001/02), the re-alignment of functions to the newly demarcated municipalities and funding of district municipalities (2002/03), as well as the alignment of the equitable share to the final division of powers and functions (water, sanitation, refuse) between local and district municipalities (2003/04). New priorities since 1998 included the creation of two windows (2003/04) to fund free basic services (electricity, water, sanitation and refuse removal), and one window (2002/03) to support the operational costs related to nodal priority programmes in the acceleration of the provision of free basic services to poor communities. Other policy or data updates include adjustments to the method of measuring poverty (from income to expenditure), increasing the poverty threshold from R800 to R1 100 in 2001/02, regular updates to the alpha and beta parameters, and the institutional *I grant.*

No major technical changes have been introduced to the equitable share formula in the 2004 Budget, other than to update it with Census 2001 data that was released in 2003. The guarantee mechanism has also been adjusted to phase in the impact of the new census results. This adjustment is discussed elsewhere below. The census adjustments update population, urban/rural proportions, the number of poor households without access to the basic level of electricity, water, sanitation and refuse removal, and the number of poor households spending less than R1 100 per month in a municipality.

In 2002 Government recognised the urgent need to review the formula, given the major restructuring that the local government sphere has undergone since 1998, and announced a comprehensive review for the 2004 Budget. The review is still under way and it is hoped that this process can be completed in time for the 2005 MTEF, but this depends on a number of factors, and the availability of new information for *all* municipalities (and by municipality). These factors include the impact on each municipality of the restructuring of the electricity distribution industry, the shifting of staff from water schemes administered by the national Department of Water Affairs and Forestry, a review of the future of the Regional Services Council Levies, the expected impact of the Property Rates Bill, and the revenue raising potential of every municipality.

Current equitable share formula

The local government equitable share formula used for the 2004 MTEF allocations per municipality is outlined below. The formula includes six budget windows, and allocates the equitable share grant for the 2004/05 *national* financial year. The adjustment of allocations to a *municipal* financial year is effected thereafter.

The allocation per window in the equitable share formula is based on the policy imperatives for the MTEF. Table E18 below indicates that the only significant change made to baseline for the 2004/05 financial year is a 69,2 per cent increase in the free basic services window, which increases from R867 million to R1 467 million. This increase also applies to the two outer years, where the free basic services window increases to R2 255 million in 2005/06 and R2 676 million in 2006/07.

Table E18 Local government equitable share, 2004/05 – 2006/07

R million	Baseline 2004/05	Adjustments to baseline (2004 Medium-term estimates) 2004/05		2005/06		2006/07	
			% change		% change		% change
R293 allocations	263	263	–	184	-30,0	129	-30,0
S-grant (including guarantees)	4 746	4 746	–	4 866	2,5	5 202	6,9
I-grant	473	473	–	494	4,4	514	4,0
Nodal allocations	228	228	–	244	7,0	244	–
Free basic services (water, sanitation and refuse)	867	1 467	69,2	2 255	53,7	2 676	18,7
Free basic electricity/energy	500	500	–	600	20,0	600	–
Total equitable share	**7 078**	**7 678**	**8,5**	**8 643**	**12,6**	**9 365**	**8,3**

Each of these windows is discussed below. Stats SA provides the demographic information used for the equitable share.

I-grant

The purpose of the I-grant is to provide resources to municipalities to assist in funding the basic institutional and governance arrangements. The grant is designed to target municipalities with little capacity to fund their own administrative infrastructure. Currently the I-grant formula allocates funding to selected local and district municipalities. Metropolitan and large local municipalities have relatively high fiscal capacity and do not qualify for the grant. The first part of the I-grant formula captures how the administrative costs of a municipality increase with population size. It assumes that these costs increase more slowly than population: larger municipality has more costs, but not proportionately more than a smaller one. The second part of the formula is compensating for the inability of the municipality to fund its own administrative overheads. The formula for the I-grant is:

$$Ii = I_0 Pi^{\gamma} - 0.075\left(yi - 250\right)PiIi = I_0 Pi^{\gamma} - 0.075\left(yi - 250\right)Pi$$

Where: I_0 = a per capita I-grant parameter that serves to determine the total amount of money allocated through the I-grant;

P_i = is the population in the municipality i;

γ = a scale parameter that could take any value > 0 and ≤ 1; and

y_i = is the average monthly per capita expenditure in municipality i for values of y_i below the stated monthly per capita floor of R250, the term (y_i - per capita floor) is set equal to zero.

The following parameters are applied to arrive at an I-grant allocation per municipality for the 2004 MTEF:

	Parameter	**2004/05**	**2005/06**	**2006/07**
I_0	Per capita parameter for category B municipalities	R175 684	R181 392	R186 799
	Per capita parameter for category C municipalities	R266 612	R273 153	R279 053
γ	Scale parameter	0.25		
yi	Average monthly per capita expenditure threshold	250		
	Population cut-off	5 000		
	Per capita floor	R250		

S-grant

The S-grant is the biggest component within the equitable share grant, and is designed to meet the operating costs of a municipality when providing a package of basic services to low income households. It is important to note that poor households are classified as those spending less than R1 100 per month.

The formula for the S-grant is:

$$S = \alpha \beta L H_i$$

Where : α = a phase-in parameter with $0< \alpha \leq 1$;
β = a budget-adjustment parameter, set to adjust the size of the grants to the available budget;
L = an estimate of the annual cost of providing basic public services; and
H_i = the number of poor households.

The following parameters are used for the 2004 MTEF, and are the same as the 2003 baseline values (excludes the budget adjustment parameter):

	Parameter	**2004/05**	**2005/06**	**2006/07**
α	Rural alpha	0.85	1	1
	Urban alpha	1	1	1
β	Budget adjustment parameter	0,559	0,835	0,909
L	Annual cost of basket of basic services per poor household	R1 032		

The alpha parameters were introduced in recognition of the differences in the financial and administrative capacities of rural and urban municipalities. The alpha values for urban and metropolitan municipalities are set at 1 for the 2004/05 financial year, whilst the alpha values for the rural municipalities are planned to reach 1 in the 2005/06 financial year. This will take account of capacity to spend efficiently and effectively. The threshold poverty level is set at R1 100 household expenditure per month. Initial indications from Census 2001 and the 2002 Household Survey suggest that based on this threshold 5,5 million households are living in poverty.

Free Basic Services (FBS) and Free Basic Electricity (FBE)

Two components were introduced in the 2003/04 financial year to accelerate the pace for the provision of free basic electricity/energy and free basic services (water, sanitation, refuse) to poor households. These are now the second most important windows in size, set at R2,0 billion in 2004/05, increasing to R3,3 billion in 2006/07. The FBS grant is worked out as the average of two calculations:

- The first calculation is proportional to the S grant, i.e. it depends only on the total number of poor households in the municipality and the urban-rural weighting factor θ. This allocation can be represented as follows:

  $$FBS1 = \theta FH$$

  where F is an FBS allocation per poor household and H is the number of poor households in the municipality. If a B municipality does not perform all functions, then a proportionate amount of this FBS allocation is transferred to the appropriate C municipality.

- The second calculation takes into consideration how many poor households receive the particular basic service in question. This allocation can be represented as:

  $$FBS2 = FW * H_1 + FS * H_2 + FR * H_3$$

  where FW is an allocation for free water, FS is an allocation for sanitation and FR is an allocation for refuse removal. H_1 is the number of poor households receiving water, H_2 is the number of poor households receiving sanitation services and H_3 is the number of poor households receiving refuse removal services. If a particular B municipality does not provide any of these services, then that part of the allocation is transferred to the appropriate C municipality.

- The final FBS grant is

  $$FBS = \tfrac{1}{2}(FBS1+FBS2)$$

  The FBE grant is worked out according to the same process as the FBS grant, but only taking into account infrastructure for poor households as it relates to electricity/energy.

Nodal Allocations

The President announced 21 development nodes in his 2001 State of the Nation Address. Departments were subsequently requested to prioritise funding to these under-developed areas. Additional equitable share allocations have been made available to these nodes for non-infrastructure developmental programmes, beginning in 2002/03. The funding of the nodes is linked to the life span of projects. Similar to previous years, 65 per cent of the nodal equitable share allocation will be allocated to the rural nodes and 35 per cent to the urban nodes. Nodal allocations are based on the S grant and reflected for each municipality designated as a nodal area. Allocations are reflected in the schedules to the Division of Revenue Bill.

R293 allocation

The equitable share allocations for the 2001/02 to 2003/04 financial years included funding for the staff of former R293 towns, which were part of municipalities in the old Bantustans. Their staff and functions were transferred to provinces in 1994, and thereafter to the new municipalities. The R293 allocation originally had two components; one dealing with non-personnel and the other with personnel. The non-personnel component of the R293 allocation was phased-out and included into the local government equitable share for the 2000/01 financial year. Most staff were only transferred after 2000, and municipalities accepting such staff were guaranteed to receive the full amount for this grant over a three-year period ending 30 June 2004. Thereafter the normal formula allocations will apply, but the guarantee mechanism (as discussed below) will also apply for the next three years. To ensure that R293 staff personnel subsidies are guaranteed at full 70 per cent levels, these allocations are still reflected as a separate window over the next three years. The baseline allocations reduce from R396 million in 2003/04 to R263 million in 2004/05, R184 million in 2005/06 and R129 million in 2006/07. Thereafter, this component will no longer exist.

'Guaranteed' amount

To create stability and prevent the disruption of services, municipalities are guaranteed 70 per cent of their previous year's allocation. However, given the new functions for the 2003/04 financial year for category B and C municipalities, the equitable share allocations have been adjusted to provide funds to the municipality legally assigned the function. The guarantee mechanism does not therefore apply to that portion where a municipality no longer carries out a specific function.

The introduction of the new census data creates substantial shifts in the distribution of allocations between municipalities. To phase in the impact and maintain stability in the system, a 100 per cent guarantee of the 2004/05 indicative allocations and a 70 per cent guarantee of the 2005/06 indicative allocations, as published in terms of the Division of Revenue Act (Act No. 7 of 2003), have been incorporated.

Minimum Allocation

In light of the fact that it is administratively cumbersome to deal with small allocations and that some district municipalities see their allocations dropping to zero since they no longer perform functions related to the provision of basic services, a minimum allocation of R1 million on the overall equitable share allocations to all municipalities has been introduced to provide for other district municipal functions.

Water services operating subsidy

This grant is a transitional operational grant closely related to the local government equitable share grant, in that it should in principle be part of the equitable share. The grant is a transitional and indirect grant, in that it is used to fund over 300 water schemes in municipalities through the Water Trading Account on the vote of the Department of Water Affairs and Forestry (DWAF). DWAF has administered a number of these schemes in poor areas prior to 1994. Such schemes are in the process of being transferred to municipalities. The operating grant amounts to R1 001 million in 2003/04, R858 million in 2004/05, R934 million in 2005/06 and R991 million in 2006/07 or a total of R3,8 billion over the MTEF.

DWAF is in the process of transferring schemes over the next two years, for which funding will be phased out from 2006/07. Like the process for the R293 staff, DWAF plans to conclude bilateral negotiations with municipalities by 30 June 2004. All funds on this programme will thereafter be transferred to municipalities directly as soon as such transfers occur. Direct grants to DWAF will be phased progressively downwards and those to municipalities upwards.

The transfer of water schemes involves the transfer of both assets and staff, and the resulting operating costs of salaries and free basic services. The 300 schemes employ 8,094 staff and affect 83 municipalities. Over 40 per cent of the staff is to be transferred to municipalities in Limpopo. Estimated personnel related costs over the three years amount to R393 million. Full costs for the operations of the schemes are being finalised. About 500 of the 8,094 staff have already been transferred to 5 municipalities. The medium-term plan is to transfer 1000 staff in 2003/04 and up to 6,500 in the 2004/05 and 2005/06 financial years. However, it should be noted that many municipalities are reluctant to accept all the staff or schemes for several reasons: they either already have staff to operate such water schemes, the DWAF personnel are often poorly skilled or are remunerated at levels higher than rural municipalities can afford. Moreover some of these schemes are overstaffed, and DWAF may have to find alternative ways to deal with such staff, rather than shift them to municipalities.

All receiving municipalities will be required to conclude formal transfer agreements where the latest effective date of transfer is 30 June 2005. The operating and transfer subsidy will be treated as a grant-in-kind until the effective date of transfer, and thereafter progressively phased into the equitable share. The operating subsidy will cover staff related costs (HR component) and direct operating and maintenance costs (O component). The allocation per municipality will be according to the operational budget for each scheme and the funding requirements identified and agreed in the transfer agreement. Clear performance targets will be set with the assistance of the Department of Provincial and Local Government and SALGA to complete the process.

Conditional grants to local government

Schedules 6 and 7 of the Division of Revenue Bill present conditional grants to municipalities. Despite the growing importance of the unconditional equitable share grant, conditional grants are still a significant portion of national grants to local government. In particular, conditional grants are used to:

- Incorporate national priorities in municipal budgets
- Promote national norms and standards
- Address backlogs and regional disparities in municipal infrastructure
- Effect transition by supporting capacity-building and restructuring of municipalities.

Total conditional grants to municipalities increase from R6,0 billion in 2003/04, to R6,6 billion in 2004/05, R7,3 billion in 2005/06 and R7,7 billion in 2006/07. There are two categories of conditional grants, infrastructure and capacity-building/restructuring grants. The most significant development for 2004/05 is the establishment of the new Municipal Infrastructure Grant, which replaces all the other current infrastructure grants over the next two years. The capacity building and restructuring grants rise slightly, but are capped at R750 million for the two outer years, and are also rationalised. As a result, significant changes are introduced in the policy framework underlying some grants, particularly in infrastructure and capacity building. Below is a summary of all the conditional grants listed in Schedules 6 and 7 of the 2004 Division of Revenue Bill.

Infrastructure conditional grants to local government

Infrastructure grants are a critical instrument for achieving national Government's objective of expanding the delivery of basic services to poor households and to alleviating poverty. They complement the equitable share allocations to give effect to government's commitment towards poverty relief and the delivery of free basic services.

Infrastructure grants are also aimed at stimulating job creation and ensuring skills transfer over the medium term. Municipalities are therefore required to dedicate a portion of their capital budgets to labour-based infrastructure methods to meet the objectives of the Expanded Public Works Programme. The total allocation for infrastructure is R5,0 billion, R5,6 billion, R6,0 billion for each of the MTEF years.

The Municipal Infrastructure Grant (MIG) gives effect to earlier Cabinet decisions and policy positions on the establishment of a single consolidated funding mechanisms to support municipal infrastructure. The MIG has been set up to merge the following funding programmes in a phased manner over a three-year period commencing in 2004/05:

- Consolidated Municipal Infrastructure Programme, in support of internal bulk, connector infrastructure and community facilities to poor households
- Water Service Capital Fund, in support of bulk, connector and internal infrastructure for water services at a basic level
- Community Based Public Works Programme, in support of the creation of community assets in rural, historically disadvantage communities
- Local Economic Development Fund, in support of planning, and implementation of job creation and poverty alleviation
- Building for Sport and Recreation Programme, in support of promoting sport and recreation facilities within disadvantage communities
- Electrification funding in support of addressing the electrification backlog of permanently occupied residential dwellings that are situated in historically under-supplied areas.

The MIG is a new infrastructure transfer mechanism and is geared to making the system of transfers to municipalities simpler, more certain and direct. Its conditions are more flexible, designed to support the capital budgets of municipalities, and to facilitate integrated development planning. The MIG will not fund specific projects, but is designed to complement the capital budgets of municipalities (similar to the provincial infrastructure grant). Reporting on spending will therefore be on the entire capital budget of municipalities, which also has to ensure that there are sufficient operational budgets in the future to fund such capital expenditure.

Much technical work has been undertaken over the past 6 months to ensure that the phasing in of the grant is smooth and fully operational by 2006/07, if not sooner, especially for the larger, more well capacitated municipalities. To this end, all committed and uncommitted infrastructure transfers to local government (except for the Sport and Recreation Programme and the Electrification Programme) have been moved to the vote of the Department of Provincial and Local Government with effect from 1 April 2004. Commitments made by the respective line departments prior to 30 September 2003 will be honoured by the municipalities through the imposition of conditions on the grant.

The above arrangement will not apply to those commitments where DWAF is the implementing agent, and is committed by way of contracts as part of its capital programme. These funds will be retained on the vote of DWAF over the next two years, before fully phasing into the MIG.

The MIG policy also makes provision for various capacities of municipalities namely, highly capacitated, medium capacitated and low capacitated municipalities. The fifty highly capacitated municipalities, as measured by budget size, will receive their allocations directly from the grant. The final allocations equal either the existing commitments for the municipality or the allocation as calculated by the MIG formula, whichever is higher. This arrangement is applicable to all municipalities categorised as having high capacity and that will be able to produce medium term capital plans and budgets, reflecting all projects to be funded in each sector.

Municipalities that are not classified as highly capacitated will receive their committed and uncommitted allocations via the district municipality in whose jurisdiction they fall. After determining the allocations to the highly capacitated municipalities, the remainder of the funds will be used to meet existing commitments in the medium and poorly capacitated municipalities. The Department of Provincial and Local Government will ensure that a plan exists to build in-house capacity over the next two to three years to ensure that these municipalities graduate into highly capacitated municipalities over the shortest possible time so that they could manage this programme allowing for funding to flow directly to them. Various levels of support will be rendered to municipalities either by the national government, provincial government and Project Management Units (PMU's) to ensure the smooth implementation of the MIG programme.

Medium-capacitated local municipalities that are able to submit three-year capital plans by 30 June 2004 will, however, qualify to receive allocations directly from the district municipality.

The MIG gives municipalities a central role in coordinating development activity and the delivery of municipal infrastructure within their jurisdictions. The MIG is focused on achieving a number of output conditions, including the achievement of service coverage targets, employment creation and linking Integrated Development Plans (IDPs) and budgets. The role of national government would be to support, and monitor policy outcomes and regulate municipal infrastructure investments. Crucially, the policy reform around infrastructure grants will bring the grant system in line with the general direction and path of the intergovernmental system, which is focused towards improving the capacity, efficiency, effectiveness, sustainability and accountability of the local government sphere, and making integrated development plans the primary mechanisms for intergovernmental coordination.

The grant frameworks of the respective programmes reflect the output-based reporting as required in terms of the Division of Revenue Act. Municipalities will be required to report on spending and progress in implementing projects, focusing on priority areas, such as water and sanitation, refuse removal, roads and community facilities as well as reporting on labour utilisation. Municipalities will be required to improve the quality and content of annual reports. In this regard, specific outputs and outcomes will be monitored through this reporting mechanism.

MIG Formula

There are five main components of the formula, after accounting for funds flowing to the Special Municipal Infrastructure Fund (SMIF) (4 per cent of total funds) for innovation and region-wide programmes. The SMIF is an in-year allocation made by the Department of Provincial and Local Government to municipalities.

For the 2004/05 municipal financial year, the application of the formula begins with determining the allocation due to each municipality using the formula. Depending on the level of existing commitments and the capacity of the municipality, a proportion will flow as MIG funds to the municipality as described above. The key condition over this initial period is the submission of three-year capital spending plans by municipalities conforming to MIG criteria. The other applicable conditions and outputs are contained in the MIG framework as per the Division of Revenue Gazette.

$$\mathbf{MIG_{(F)} = B + P + E + N + M}$$

- **B** Basic residential infrastructure (new and rehabilitated) 75

  Proportional allocations for water supply and sanitation (72%), electricity (0%), roads (23%) and 'other' (5%) (Street lighting and solid waste removal)

- **P** Public municipal service infrastructure (new and rehabilitated) 15
- **E** Allocation for social institutions and micro-enterprises infrastructure 5
- **N** Allocation to all nodal municipalities 5
- **M** Negative or positive allocation related to past performance of each municipality relative to grant conditions

Over the 2004 MTEF, R15,7 billion is available for the MIG Programme. The Sport and Recreation Programme and the Electricity Programme are excluded from the MIG programme in 2004/05. The Electricity Programme will only be included in the MIG allocations after two years upon finalisation of the restructuring of the electricity distribution industry. Until such time, the electricity portion has been shifted to water and sanitation over the 2004/05 to 2006/07 medium-term because existing commitments exceed the amounts determined by the MIG formula. This effectively gives the water and sanitation component the largest allocation at 72 per cent (or R2,3 billion, R2,7 billion and R3,1 billion in 2004/05, 2005/06 and 2006/07 respectively) of the B component.

Table E19 Municipal Infrastructure Grant (MIG) allocations per sector, 2004/05 – 2006/07

	Weighted	2004/05	2005/06	2006/07
R million	**share**	**Medium-term estimates**		
Municipal Infrastructure Grant	***100,0%***	**4 446**	**5 193**	**5 987**
Special Municipal Infrastructure Fund and Management	*4,0%*	178	208	239
Municipal Infrastructure Grant (formula)	*96,0%*	4 268	4 985	5 748
of which **Municipal Infrastructure Grant (formula)**	***100,0%***	**4 268**	**4 985**	**5 748**
B Component	***75,0%***	**3 201**	**3 739**	**4 311**
Water and sanitation	*72,0%*	2 305	2 692	3 104
Electricity	*0,0%*	–	–	–
Roads	*23,0%*	736	860	991
Other	*5,0%*	160	187	216
P Component	***15,0%***	**640**	**748**	**862**
E Component	***5,0%***	**213**	**249**	**287**
N Component	***5,0%***	**213**	**249**	**287**

Table E19 captures the way in which the funds are distributed by each component using data from Stats SA to municipalities. The formula allocations have been adjusted to provide funds to the municipality legally assigned the function to perform the particular service, in line with Government Gazette No. 24228 of 3 January 2003 issued by the Minister of Provincial and Local Government.

Table E20 Horizontal Distribution of Funds[1]	
B Component	
Water & Sanitation	Number of Water Backlogs in Municipality * 0.5 * W & S Allocation + Total Number of Backlogs in SA Number of Sanitation Backlogs in Municipality * 0.5 * W & S Allocation Total Number of Backlogs in SA Backlog = Household with less than basic access to water and sanitation Basic access to water = Access to water within 200m of dwelling Basic access to sanitation = Ventilated Pit Latrine
Electricity	Number of Electricity Backlogs in Municipality * Electricity Allocation Total Number of Backlogs in SA Backlog = Household with less than basic access to water and sanitation Basic access to electricity = Use of electricity for lighting
Roads	Number of Roads Backlogs in Municipality * Roads Allocation Total Number of Backlogs in SA Backlog = Household living in informal settlement
Other	Number of Other Backlogs in Municipality * Other Allocation Total Number of Backlogs in SA Backlog = Household with less than basic access to refuse removal Basic = Refuse removal by municipality at least on a weekly basis
New and Rehabilitated Infrastructure	Assume an 80:20 % split between new and rehabilitated infrastructure.
P Component	Number of Poor Households in Municipality * P Allocation Total Number of Poor Households in SA Poverty threshold = R1100 household expenditure per month
New and Rehabilitated Infrastructure	Assume an 80:20 % split between new and rehabilitated infrastructure.
E Component	Number of Poor Households in Municipality * E Allocation Total Number of Poor Households in SA Poverty threshold = R1100 household expenditure per month
N Component	Number of Poor Households in Nodal Areas in Municipality * N Allocation Total Number of Poor Households in all Nodal Areas Poverty threshold = R1100 household expenditure per month

[1] All the data used in the formula has been obtained from Stats SA; namely Census 2001 and poverty data based on imputed household expenditure.

Capacity-building and restructuring grants

There are two capacity-building grants, the Financial Management Grant and the Municipal Systems Improvement Programme, and a restructuring grant. These grants totalled R901 million in 2003/04, and reduce to R723 million in 2004/05 and R749 million each for 2005/06 and 2006/07. Government has limited the size of these grants to R749 million, and intends to reduce them further after 2006/07, as such grants should by their nature build capacity initially and phase-down thereafter. Such reductions also benefit the equitable share, which gains from any reductions in the capacity-building grants.

Over the past years, national and provincial governments have committed significant resources to capacity building. It is not clear what, or whether, capacity building funds have in fact brought about improved capacity in municipalities. Emphasis is now shifting towards building in-house municipal capacity, improve service delivery and value-for-money. For this reason, such grants will, in future, be allocated to municipalities directly, rather than to provincial or national departments. Government is also focusing its efforts on greater coordination between capacity-building initiatives.

The capacity-building grants were set up to assist municipalities in building management, planning, technical, budgeting and financial management skills.

The Department of Provincial and Local Government is working closely with sector departments to develop a comprehensive capacity-building strategy. An interim framework for municipal capacity building regulates the alignment of capacity-building programmes. In line with this approach, the Local Government Capacity Building Grant, which is currently distributed via provinces to municipalities, will be incorporated into the Municipal Systems Improvement Grant (MSIG) and will be transferred directly to municipalities.

The *Municipal Systems Improvement Grant (MSIG)* under the vote of the Provincial and Local Government Department assists municipalities to build in-house capacity through district and selected local municipal support and focuses on stabilising municipal and governance systems, supporting Planning and Implementation Management Support centres (PIMS), reviewing IDP's and implementing the Municipal Systems Act. To date 44 PIMS centres have been established in 44 districts and a further 3 are in the process of being established and IDPs have been completed and are currently being implemented. Allocations over the 2004 MTEF amount to a further R582 million.

The *Financial Management Grant* under the National Treasury vote funds budget and financial management reforms, including building in-house municipal capacity to implement multi-year budgeting, link integrated development plans to budgets, produce quality and timely in-year and annual reports, as well as the implementation of the Municipal Finance Management Act. It also includes a provision for an international technical assistance programme. In 2000 a pilot programme commenced to develop the reforms in selected municipalities. The number of participating municipalities grew from the initial 7 in 2000 to 63 in 2003. Countrywide roll out was promoted in 2003 and by the end of 2004 all municipalities will be participating in the programme. The programme provides for the gearing of international support and direct allocations to municipalities. The allocations amounted to R50 million, R60 million, R154 million and R212 million in 2000/01, 2001/02, 2002/03 and 2003/04, respectively. The 2004 MTEF provides for a further R599 million. During 2003 sixteen international financial advisors were placed in selected municipalities to support the implementation of the reforms. This is to expand over the medium-term to over thirty advisors. Furthermore, to facilitate skills development in financial management, municipalities have utilised the grant to appoint over one hundred Municipal Finance Management Interns.

The *Restructuring Grant* under the National Treasury vote is a demand driven grant and is aimed at funding municipal restructuring initiatives of a financial, institutional and developmental nature that are locally designed and owned. Only large municipalities are eligible for this grant. Following an initial slow take-up rate on the restructuring grant, a noticeable increase in demand occurred during 2003. Multi-year contracts will be concluded with several new municipalities, and future efforts will focus on assessing the successful implementation in terms of agreed milestones. The grant has been capped at R350 million from 2006 and will be reviewed thereafter. The City of Johannesburg's restructuring plan encompassed a wide range of institutional and financial reforms including the implementation of iGoli 2002 strategy. First time applications from eligible municipalities were of a poor quality and standard. Three municipalities were allocated the grant R99 million during 2003, Cacadu District, Msunduzi and Mangaung local municipalities. Applications were received from Buffalo City, Emfuleni, Polokwane, uMhlatuze, Sol Plaatje, Matjhabeng, Mogale City, local municipalities and from the five metropolitan municipalities. These applications are being evaluated and it is anticipated that, for successful municipalities, funding will be disbursed by March 2004.

Part 6: Way Forward

The first decade of democracy witnessed remarkable progress in the development, evolution and consolidation of South Africa's intergovernmental grants system. Intergovernmental executive and legislative structures have been established. These include, among others:

- The National Council of Provinces which includes the Premiers, representatives of provincial legislatures and organised local government
- The Presidential Coordinating Council comprising the President, Premiers and Minister of Provincial and Local Government Affairs
- The Budget Council constituted by the Minister of Finance and the MECs for Finance
- The Budget Forum, which is the Budget Council extended with representation from organised local government
- Sectoral MinMECs made up of the national minister and provincial MECs responsible for concurrent functions such as education, health, welfare, housing, agriculture and others
- Joint MinMECs which bring together sectoral MinMECs with Budget Council and in the case of local government, with the Budget Forum.

These are the building blocks on which the intergovernmental system has evolved. They bring together democratically elected representatives with the view of facilitating alignment of intergovernmental policy programmes and implementation across the three spheres. Several technical forum(s) of officials support each of these forums. Effective intergovernmental coordination among the three spheres during the first ten years of democracy saw the successful implementation of the following reforms, which have now become permanent features of the intergovernmental system:

- Introduction of three-year rolling budgets – the Medium Term Expenditure Framework – which initially focused on national and provincial budgets, and has been extended to local government in the last two years, with three year allocations of national transfers now published four months before municipalities table their budgets. Together with the early publication of the *Medium term Budget Policy Statement*, this gives South Africans advance indication of the future direction of government policies and sets out how coming budgets will give expression to national policies affecting them.

- Strategic planning, financial management and reporting, publication of performance information and other reforms underpinned by the Public Finance Management Act Promulgated ion 1999.

- The enactment of the Municipal Finance Management Act, which is due to take effect in July this year, setting out the legal framework for extending all the reforms that have been implemented at national and provincial levels to local government, some of which are already being piloted in several municipalities.

In addition, the last decade saw the development and application of objective redistributive provincial and local government formulae that have been used to determine allocation of resources within each sphere. Notwithstanding that these formulae have been reviewed, revised and updated as circumstances change or new information became available, with the ending of the first decade of democracy, Census 2001 results released and more clarity on the division of powers and functions among spheres including the shifting of social grants and restructuring of electricity distribution, it is opportune that a more in-depth fiscal review of the intergovernmental grant system be undertaken. The review will be broad ranging and all encompassing.

Provincial fiscal framework

The review will consider the taxation and borrowing powers of provinces. With the passage of the Provincial Tax Regulation Process Act, Western Cape is in the process of applying for a surcharge on the fuel levy. Further, the last Budget Council lekgotla has also raised whether it is feasible for provinces to borrow with their limited fiscal capacity, and given the nature of their functions, many of which like education, health and social grants have no potential to raise significant revenue. The fiscal review will examine the way forward on the taxation and borrowing powers of provinces, taking into account past policy papers that have informed the current provincial fiscal framework.

With regard to the provincial grant formulae, it is instructive to assess the outcome of the current grants framework. The table below indicates how redistributive the current equitable share allocations are. It should be borne in mind that the actual allocations and percentages are outcomes of the formula (and underlying that, of the policy parameters and weightings of components). These outcomes can guide how the formula should be revised for the 2005 and future budgets. The table indicates that in 2004/05, the equitable share allocation per head is redistributive, from Gauteng which is 22 per cent lower than the per capita average, Western Cape at 11 per cent and to a lesser extent KwaZulu-Natal (2 per cent). The province that gains the most is Northern Cape (31 per cent), Eastern Cape (17 per cent) and Limpopo (16 per cent), and to a lesser extent Free State (9 per cent), Mpumalanga (4per cent) and North West (1 per cent)..

Table E21 Available resources: Per capita percentage above or below national average

Percentage	2004/05			1998/99		
	Equitable share (ES)	ES and conditional grants	ES, conditional grants and own revenue	Equitable share (ES)	ES and conditional grants	ES, conditional grants and own revenue
Eastern Cape	17,5	15,8	14,7	14,5	9,7	8,5
Free State	9,2	11,2	12,0	5,8	5,9	6,1
Gauteng	-22,2	-18,8	-17,4	-18,3	-11,7	-9,4
KwaZulu-Natal	-1,7	-3,1	-3,5	-5,5	-3,6	-4,9
Limpopo	15,8	12,4	10,5	8,5	3,4	1,2
Mpumalanga	4,1	1,5	-0,4	-4,5	-9,5	-11,6
Northern Cape	30,7	32,7	38,3	19,9	13,1	24,4
North West	1,3	0,2	-0,4	4,5	-1,0	-0,7
Western Cape	-11,3	-7,7	-5,6	3,3	10,5	12,2

Conditional grants, however, tend to make the allocations less redistributive. This is not surprising as most tertiary services and medical training (the largest provincial conditional grants) are provided in academic hospitals in wealthier provinces like Gauteng, Western Cape and KwaZulu-Natal. Hence, Gauteng and Western Cape lose less per capita at 19 and 8 per cent respectively, whilst KwaZulu-Natal loses 3 per cent. Eastern Cape (16 per cent), Limpopo and Mpumalanga (2 per cent) lose slightly, whilst Northern Cape and Free State gain significantly. If own revenue collected is added, the Gauteng, Western Cape and KwaZulu-Natal budgets are lower per capita by 17, 6 and 3 per respectively, whilst Eastern Cape, Mpumalanga and North West are average, and all other provinces budget more per head on their revenue side.

Compared to 1998/9, more (equitable share) funds are redistributed per head in 2004/05 from Gauteng, Western Cape and KwaZulu-Natal. More funds flow per head to Northern Cape, Eastern Cape, Limpopo, Free State and Mpumalanga. Only the North West receives less funds per head than in 1998/99.

A second factor to assess on provincial grants is to compare the adjusted 2003/04 budget shares for social grants, and the social sectors, compared to the weight in the formula. Most striking is that provinces expect to spend 29,3 per cent of their total equitable share allocations on social development budgets, compared to its 18 per cent weighting. Similarly, total social services expenditure on education, health and social development (excluding the tertiary services and training grants) is now 85,6 per cent compared to its weighting of 78 per cent.

These are the sorts of factors that will require further analysis going forward, to determine the adequacy of funding for provinces, given the functions they are expected to deliver on.

Local government fiscal framework

More than provinces, the local government fiscal framework will require the greatest adjustments, given the significant changes expected. The restructuring of the electricity industry will have significant impact on the budgets of municipalities. A related issue will be whether REDs are funded directly for the provision of electricity to poor households, or whether this is done via municipalities using the REDs as an external provider in terms of the Municipal Systems Act. The future of the RSC levies will also be reviewed, and if replaced, will affect the current intergovernmental framework for local government. Any increase in fiscal capacity of municipalities through the new Property Rates Bill will also affect how allocations are divided between municipalities, as fiscal capacities will be affected differently between municipalities. The shifting of functions or new functions like municipal health, public transport and their subsidies, municipal roads, municipal police, municipal housing and other shared functions will also have to be taken into account. Hence the review of the fiscal framework, taking account of the above shifts in functions, will probably be very significant.

Municipalities will also be affected by the transfer of water schemes and their staff, which will also have to be taken into account when finalising the grant framework. This may have to be addressed in a similar manner as with the R293 staff transfer.

Whilst the intentions is to review all conditional grants, the new Municipal Infrastructure Grant formula is not expected to change significantly. On the other hand, the current equitable share formula was adopted in 1998, and has had to be adjusted to take account of the many changes to municipalities over the last 4 years, including the new municipal system introduced in December 2000. Though it is widely accepted that this formula needs to be restructured, any new formula is dependent on reliable information available per municipality. Official surveys conducted by Stats SA tend to be reliable only at a provincial level, and many municipalities are unable to provide relevant information on their revenue or expenditure in terms of internationally accepted economic classifications. The problem facing the allocations system is that it needs only one weak municipality to render unusable any information collected from all other municipalities. National allocations are an important (and growing) source of revenue for municipalities. In 2003/04 national allocations comprised around 13,7 per cent of total local government budgets, varying from between 3,0 to 6,7 per cent for metros, up to a maximum of 92,1 per cent for the Bohlabela (Bushbuckridge) in Limpopo province. The variance of the share of national allocations between municipalities reflects the different fiscal capacities, poverty and backlogs of municipalities, with more urban municipalities raising more of their own revenue, whilst more rural municipalities tend to raise less of their own revenue. Attached at the end of this memorandum are municipal allocations.

Review of local government conditional grants

An important part of the grants review for both provinces and local government is the reforms required to make the current system of conditional grants more coherent, transparent, performance-driven and accountable.

The first point of the review is to ensure that all conditional grants are clearly motivated, and that the formula used is equitable, and that all data used for the formula for a grant is of an acceptable quality, preferably certified by Stats SA or as audited, and available to the public. Many of the current conditional grants tend to reflect sectoral agreements secured through the relevant MinMECs.

The second point of the review is to assess whether conditional grants achieve their objectives, and are linked to clear performance objectives. Spending information on conditional grants is often poor. Many transferring national departments do not effectively monitor such grants after making their transfers, as noted by the Auditor-General on the audits for the 2002/03 financial year. Five key national departments administering conditional grants were found not in material non-compliance with the 2002 Division of Revenue Act, including ineffective monitoring, to the point where the Auditor-General could not determine whether such grants were utilised as stipulated. These comments affected some of the biggest grants for housing, health, education and local government. Neither is the audit process comprehensive at this stage in tracking whether grants transferred are budgeted for by provinces and municipalities receiving such grants. In this respect, it is important the all transfers are audited against the Schedules of the Division of Revenue Act.

Conclusion

In spite of the remarkable successes in the development of the intergovernmental fiscal framework, the review process for the 2005 framework will consider the outcomes of the current allocation formulae, and the broader fiscal framework. The coming 2004 Intergovernmental Fiscal Review, expected in May, will also cover more detailed analysis on provincial and local budgets, as well as on specific sectors like education, health, social development, water, electricity, housing and roads. Such information will enhance the review process.

The Division of Revenue Bill, attendant documentation (schedules indicating division and grant frameworks), and background material such as the *Intergovernmental Fiscal Review* are available on the National Treasury website (www.treasury.gov.za).

Table E22 Transfers to municipalities, 2003/04 – 2006/07 national financial year

Metropolitan and consolidated district and local municipalities	Census population, 2001	Total 2003 municipal budgets[1]	Total transfers[2]				Rand per capita Total 2003 municipal budgets[1]	Transfers as a % of 2003/04 budgets[3]
R thousand	thousands	2003/04	2003/04	2004/05	2005/06	2006/07	2003/04	%
Eastern Cape								
Alfred Nzo (Umzimvubu)	550	323 882	282 778	307 271	284 640	302 784	588	*87,3%*
Amatole (Buffalo City)	1 664	1 958 090	685 300	743 701	699 285	740 158	1 177	*35,0%*
Cacadu (Kouga)	388	673 181	139 024	150 864	127 670	134 620	1 734	*20,7%*
Chris Hani (Lukanji)	810	622 301	391 367	423 492	405 753	412 657	768	*62,9%*
O.R. Tambo (King Sabata Dalindyebo)	1 676	1 272 049	736 911	823 015	761 875	809 129	759	*57,9%*
Ukhahlamba (Malatswai)	341	301 133	214 621	218 723	220 023	199 105	882	*71,3%*
Nelson Mandela	1 006	3 257 962	218 966	240 306	249 166	261 333	3 239	*6,7%*
Sub total	**6 437**	**8 408 598**	**2 668 968**	**2 907 371**	**2 748 413**	**2 859 786**	**1 306**	***31,7%***
Free State								
Lejweleputswa (Matjhabeng)	657	1 151 307	242 779	302 655	263 645	286 769	1 752	*21,1%*
Motheo (Mangaung)	728	1 679 204	357 146	339 263	259 620	270 647	2 306	*21,3%*
Northern Free State (Metsimaholo)	460	958 631	150 911	191 232	170 310	153 503	2 083	*15,7%*
Thabo Mofutsanyana (Maluti a Phofung)	726	940 761	369 778	392 599	358 198	345 977	1 296	*39,3%*
Xhariep (Kopanong)	135	174 314	56 330	66 514	59 954	64 402	1 289	*32,3%*
Sub total	**2 707**	**4 904 217**	**1 176 945**	**1 292 262**	**1 111 728**	**1 121 298**	**1 812**	***24,0%***
Gauteng								
Metsweding (Kungwini)	160	275 259	33 436	44 245	55 518	63 848	1 722	*12,1%*
Sedibeng (Emfuleni)	795	1 573 341	115 759	153 915	190 190	212 004	1 980	*7,4%*
West Rand (Mogale City)	744	1 335 366	124 593	201 881	258 150	287 089	1 794	*9,3%*
City of Johannesburg	3 226	12 175 136	385 118	682 829	800 484	900 266	3 774	*3,2%*
City of Tshwane	1 986	7 080 904	262 412	390 546	479 656	519 209	3 565	*3,7%*
Ekurhuleni Metro	2 480	7 998 212	288 355	504 612	659 721	741 542	3 225	*3,6%*
Sub total	**9 391**	**30 438 218**	**1 209 673**	**1 978 028**	**2 443 720**	**2 723 958**	**3 241**	***4,0%***
KwaZulu-Natal								
Amajuba (Amajuba)	468	613 731	87 992	103 390	125 095	137 296	1 311	*14,3%*
Ilembe (Kwa Dukuza)	560	404 710	157 172	184 064	200 770	219 646	722	*38,8%*
Sisonke (Kokstad)	298	480 014	104 521	104 159	125 404	143 035	1 609	*21,8%*
Ugu (Hibiscus Coast)	704	636 627	194 774	219 927	268 380	296 550	904	*30,6%*
Umgungundlovu (Msunduzi)	928	1 755 534	317 702	284 110	274 315	302 185	1 892	*18,1%*
Umkhanyakude (Jozini)	573	247 295	174 089	181 292	215 055	241 034	431	*70,4%*
Umzinyathi (Endumeni)	456	396 190	173 533	174 247	196 489	208 599	868	*43,8%*
Uthukela (Emnambithi)	657	389 700	129 518	170 488	211 460	236 880	593	*33,2%*
Uthungulu (Umhlathuze)	886	907 291	187 392	218 948	280 009	308 119	1 024	*20,7%*
Zululand (Abaqulusi)	804	515 409	221 567	235 016	289 477	311 990	641	*43,0%*
eThekwini	3 090	9 801 876	537 713	643 268	762 497	824 009	3 172	*5,5%*
Sub total	**9 426**	**16 148 377**	**2 285 974**	**2 518 908**	**2 948 951**	**3 229 342**	**1 713**	***14,2%***
Limpopo								
Bohlabela (Bushbuckridge)	598	267 085	246 012	247 930	294 827	330 307	447	*92,1%*
Capricorn (Polokwane)	1 155	1 058 887	327 047	387 313	482 260	535 055	917	*30,9%*
Greater Sekhukhune	967	380 054	343 506	417 670	507 655	529 564	393	*90,4%*
Mopani (Greater Tzaneen)	964	433 373	320 983	373 292	457 580	495 680	449	*74,1%*
Vhembe (Makhado)	1 200	672 101	425 214	445 059	561 210	611 441	560	*63,3%*
Waterberg (Mogalakwena)	614	478 696	152 932	189 089	238 561	272 146	779	*31,9%*
Sub total	**5 498**	**3 290 196**	**1 815 694**	**2 060 352**	**2 542 093**	**2 774 193**	**598**	***55,2%***
Mpumalanga								
Ehlanzeni (Mbombela)	945	897 149	314 937	319 805	394 990	420 104	950	*35,1%*
Gert Sibande (Govan Mbeki)	900	1 143 113	230 737	249 096	307 440	337 713	1 270	*20,2%*
Nkangala (Emalahleni)	1 021	1 465 184	228 423	310 220	381 219	411 771	1 436	*15,6%*
Sub total	**2 865**	**3 505 446**	**774 097**	**879 121**	**1 083 649**	**1 169 588**	**1 223**	***22,1%***

Metropolitan and consolidated district and local municipalities	Census popu-lation, 2001	Total 2003 municipal budgets[1]	Total transfers[2]				Rand per capita Total 2003 municipal budgets[1]	Transfers as a % of 2003/04 budgets[3]
R thousand	thousands	2003/04	2003/04	2004/05	2005/06	2006/07	2003/04	%
Northern Cape								
Frances Baard (Sol Plaatje)	325	679 253	109 055	116 071	121 194	114 907	2 091	*16,1%*
Karoo (Emthanjeni)	165	234 206	73 415	83 835	72 390	69 846	1 423	*31,3%*
Kgalagadi (Ga-Segonyana)	177	223 327	131 916	133 064	122 754	101 315	1 262	*59,1%*
Namakwa (Nama Khoi)	108	177 804	47 272	51 528	45 086	41 772	1 645	*26,6%*
Siyanda (//Khara Hais)	210	392 915	68 022	69 022	67 951	68 874	1 872	*17,3%*
Sub total	**984**	**1 707 505**	**429 681**	**453 520**	**429 375**	**396 716**	**1 735**	***25,2%***
North West								
Bojanala Platinum (Rustenburg)	1 185	1 454 700	315 862	411 040	486 968	538 553	1 227	*21,7%*
Bophirima (Lekwa-Teemane)	440	386 226	174 440	178 851	177 464	201 385	878	*45,2%*
Central (Mafikeng)	763	495 667	223 590	246 463	270 267	310 979	650	*45,1%*
Southern (City of Klerksdorp)	600	1 022 228	128 543	157 214	183 243	205 799	1 705	*12,6%*
Sub total	**2 988**	**3 358 821**	**842 435**	**993 568**	**1 117 941**	**1 256 717**	**1 124**	***25,1%***
Western Cape								
Boland (Drakenstein)	629	1 547 171	79 497	95 604	107 249	112 171	2 458	*5,1%*
Central Karoo (Beaufort West)	60	131 353	49 517	53 065	51 811	28 299	2 172	*37,7%*
Eden (Eden)	455	1 245 152	77 053	82 522	94 502	98 155	2 737	*6,2%*
Overberg (Overstrand)	204	536 974	36 139	40 120	45 307	48 379	2 638	*6,7%*
West Coast (Saldanha Bay)	283	772 040	47 677	47 929	52 828	54 033	2 731	*6,2%*
Cape Town	2 893	10 251 170	304 688	360 984	454 286	504 063	3 543	*3,0%*
Sub total	**4 524**	**14 483 860**	**594 570**	**680 225**	**805 983**	**845 100**	**3 201**	***4,1%***
Total	**44 820**	**86 245 238**	**11 798 036**	**13 763 355**	**15 231 853**	**16 376 698**	**1 924**	***13,7%***

1. Includes total municipal capital and operating budgets.

2. Includes equitable share, infrastructure grants, recurrent grants and indirect grants but excludes unallocated transfers.

3. Not possible to make a comparison with 2004 transfers as municipal budgets for 2004 not yet available.

Table E23 Equitable share & infrastructure transfers to municipalities, 2003/04 – 2006/07 national financial year

Metropolitan and consolidated district and local municipalities	Equitable share transfers				Infrastructure transfers			
R thousand	2003/04	2004/05	2005/06	2006/07	2003/04	2004/05	2005/06	2006/07
Eastern Cape								
Alfred Nzo (Umzimvubu)	151 603	183 986	153 309	157 253	94 372	101 665	109 597	129 191
Amatole (Buffalo City)	420 413	473 751	403 734	428 232	163 264	230 003	254 321	277 090
Cacadu (Kouga)	83 992	93 686	80 883	87 372	26 578	34 942	35 841	39 768
Chris Hani (Lukanji)	221 071	257 441	221 796	228 988	109 162	127 412	137 827	155 685
O.R. Tambo (King Sabata Dalindyebo)	405 560	488 857	402 130	412 541	228 750	287 816	323 134	363 348
Ukhahlamba (Malatswai)	105 132	123 117	108 221	114 798	56 892	77 720	93 698	77 722
Nelson Mandela	149 300	161 075	155 976	174 216	64 616	75 731	89 690	86 117
Sub total	**1 537 070**	**1 781 913**	**1 526 050**	**1 603 400**	**743 634**	**935 289**	**1 044 107**	**1 128 921**
Free State								
Lejweleputswa (Matjhabeng)	187 668	214 293	165 701	174 167	39 317	80 937	90 459	106 117
Motheo (Mangaung)	226 299	235 291	167 864	174 002	54 469	71 731	84 349	92 062
Northern Free State (Metsimaholo)	109 344	122 754	97 227	100 876	30 226	63 234	67 801	47 095
Thabo Mofutsanyana (Maluti a Phofung)	222 252	252 499	206 305	194 853	97 631	112 549	123 532	123 642
Xhariep (Kopanong)	43 462	49 687	43 163	44 793	7 592	11 532	11 970	13 788
Sub total	**789 025**	**874 524**	**680 260**	**688 691**	**229 235**	**339 982**	**378 112**	**382 704**

Metropolitan and consolidated district and local municipalities	Equitable share transfers				Infrastructure transfers			
R thousand	2003/04	2004/05	2005/06	2006/07	2003/04	2004/05	2005/06	2006/07
Gauteng								
Metsweding (Kungwini)	19 209	24 897	33 036	36 189	9 127	13 940	16 705	20 283
Sedibeng (Emfuleni)	72 003	97 776	129 310	146 709	35 706	52 038	56 611	61 026
West Rand (Mogale City)	77 818	119 375	167 683	188 550	33 911	78 406	86 199	94 270
City of Johannesburg	238 763	391 161	540 445	613 393	135 441	223 637	256 939	285 873
City of Tshwane	158 737	201 389	269 776	300 956	78 739	161 956	180 680	200 253
Ekurhuleni Metro	192 485	305 515	425 108	485 023	91 570	196 097	231 613	255 520
Sub total	**759 015**	**1 140 115**	**1 565 358**	**1 770 820**	**384 493**	**726 075**	**828 747**	**917 224**
KwaZulu-Natal								
Amajuba (Amajuba)	44 980	59 932	78 525	85 326	23 914	36 485	40 933	46 208
Ilembe (Kwa Dukuza)	89 339	103 086	114 035	123 119	46 614	74 959	81 198	90 469
Sisonke (Kokstad)	51 134	61 334	81 147	89 008	27 483	37 005	39 818	48 417
Ugu (Hibiscus Coast)	94 340	110 909	146 429	158 447	74 318	101 729	115 073	129 796
Umgungundlovu (Msunduzi)	133 412	142 629	176 832	190 437	54 619	80 437	88 780	103 372
Umkhanyakude (Jozini)	79 737	91 904	123 210	131 485	60 928	78 770	83 524	99 974
Umzinyathi (Endumeni)	84 272	93 853	108 830	116 384	63 054	71 756	80 225	82 890
Uthukela (Emnambithi)	67 313	95 448	130 443	140 409	34 136	64 046	71 267	84 691
Uthungulu (Umhlathuze)	90 435	119 065	166 969	179 577	50 034	91 124	104 274	119 075
Zululand (Abaqulusi)	93 714	114 818	156 623	167 630	74 402	102 929	115 617	125 858
eThekwini	373 607	392 243	474 524	525 556	157 419	244 599	282 982	297 453
Sub total	**1 202 283**	**1 385 221**	**1 757 567**	**1 907 379**	**666 922**	**983 838**	**1 103 692**	**1 228 203**
Limpopo								
Bohlabela (Bushbuckridge)	101 322	113 623	144 374	152 512	61 286	75 652	88 425	109 699
Capricorn (Polokwane)	120 161	164 070	238 862	262 676	69 950	133 442	149 873	177 368
Greater Sekhukhune	124 938	164 119	226 813	242 180	88 179	144 489	164 083	189 188
Mopani (Greater Tzaneen)	145 591	164 092	222 554	239 517	42 329	93 736	114 732	148 057
Vhembe (Makhado)	162 807	184 982	251 086	271 806	51 710	97 665	127 478	174 371
Waterberg (Mogalakwena)	74 071	97 868	133 131	146 075	34 993	63 393	75 067	94 165
Sub total	**728 890**	**888 752**	**1 216 820**	**1 314 766**	**348 446**	**608 378**	**719 658**	**892 847**
Mpumalanga								
Ehlanzeni (Mbombela)	120 481	145 470	199 263	217 881	63 295	109 609	125 284	130 616
Gert Sibande (Govan Mbeki)	117 589	139 681	182 851	202 877	53 987	89 034	102 453	111 857
Nkangala (Emalahleni)	90 398	139 713	191 825	211 453	49 665	103 366	116 643	124 193
Sub total	**328 467**	**424 864**	**573 938**	**632 211**	**166 947**	**302 009**	**344 380**	**366 665**
Northern Cape								
Frances Baard (Sol Plaatje)	61 771	68 758	65 184	70 523	28 758	30 091	37 596	27 876
Karoo (Emthanjeni)	53 158	59 073	45 335	45 174	10 867	16 800	17 931	14 463
Kgalagadi (Ga-Segonyana)	46 514	54 415	50 499	51 353	40 773	60 482	53 080	30 852
Namakwa (Nama Khoi)	29 427	33 071	26 486	26 106	8 159	11 641	10 741	7 098
Siyanda (//Khara Hais)	41 052	46 775	42 381	44 859	9 819	16 194	18 849	16 494
Sub total	**231 922**	**262 092**	**229 886**	**238 015**	**98 376**	**135 208**	**138 197**	**96 784**
North West								
Bojanala Platinum (Rustenburg)	179 985	207 115	250 461	273 779	71 574	170 825	198 779	219 391
Bophirima (Lekwa-Teemane)	95 723	111 996	104 691	112 971	26 767	44 155	47 371	59 872
Central (Mafikeng)	122 743	141 583	153 637	165 979	41 369	67 955	80 460	106 211
Southern (City of Klerksdorp)	83 388	92 999	116 579	131 350	27 740	56 365	60 435	67 970
Sub total	**481 839**	**553 692**	**625 368**	**684 079**	**167 451**	**339 301**	**387 045**	**453 445**
Western Cape								
Boland (Drakenstein)	46 863	54 411	64 643	72 233	20 978	33 793	35 075	32 407
Central Karoo (Beaufort West)	13 990	15 341	15 694	16 258	27 384	32 044	28 398	2 972
Eden (Eden)	30 864	40 554	52 551	58 574	26 034	32 418	31 863	28 532
Overberg (Overstrand)	17 297	21 668	26 537	29 805	10 209	12 852	13 042	12 596
West Coast (Saldanha Bay)	22 861	28 621	33 121	36 741	12 805	15 558	15 848	13 183
Cape Town	159 992	205 778	275 550	311 970	137 540	151 207	174 736	191 094
Sub total	**291 867**	**366 373**	**468 095**	**525 580**	**234 950**	**277 872**	**298 962**	**280 784**
Total	**6 350 377**	**7 677 546**	**8 643 341**	**9 364 941**	**3 040 455**	**4 647 952**	**5 242 899**	**5 747 577**

1. Not possible to make a comparison with 2004 transfers as municipal budgets for 2004 not yet available.