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Division of revenue and intergovernmental transfers

Taking into account R25.6 billion of realised savings, the 2010 Budget adds R112.2 billion to current baselines over the next three years. This additional amount will enable government to accelerate the delivery of services and improve outcomes in line with the medium-term strategic framework.

Half of the additional allocations go to provinces and municipalities to achieve service delivery outcomes in job creation, health, education, human settlements and rural development. Of the total, R56.2 billion is allocated to national government, R45.6 billion to provinces and R10.5 billion to local government. These additions, together with increased efficiency in spending, should enable provinces and municipalities to accelerate and enhance delivery of services to meet government's objectives.

■ Introduction

In line with government's efforts to upgrade the quality of basic education, improve health outcomes and life expectancy at birth, develop sustainable rural communities and human settlements, and accelerate the delivery of basic municipal services, R56.1 billion is added to provincial and municipal budgets over the next three years.

R56.1 billion is added to provincial and municipal budgets to deliver on key outcomes

These additional allocations build on previous spending programmes, and are directed to the following priorities:

- R12.9 billion to step up service delivery in health and education, and to implement the occupation-specific dispensation agreements in those sectors
- R8.4 billion to support the HIV and Aids prevention and treatment programme, including broadening provision of antiretrovirals

- R18 billion for the carry-through costs of the 2009 public service salary agreement
- R6.7 billion to enable municipalities to extend basic services to the poor and protect them against anticipated price increases for bulk electricity, and R4 billion for the extension of municipal infrastructure
- R1.2 billion for the extension of on-site water and sanitation services in rural areas.

If government functions more efficiently, overall level of spending should enable achievement of outcomes

Provincial governments are projected to spend a total of about R1.1 trillion over the next three years. Municipalities will spend R650 billion on services that they deliver. This level of spending, together with a greater drive to improve efficiency, should put government in a better position to attain the outcomes discussed in Chapter 8.

This chapter outlines the division of nationally raised revenue between national, provincial and local government, and describes the policy priorities and spending plans underpinning additional provincial and local allocations. The Explanatory Memorandum to the Division of Revenue includes the details of provincial and local allocations and conditional grant frameworks. The memorandum accompanies the 2010 Division of Revenue Bill and can be found under the 2010 Budget information at www.treasury.gov.za.

■ Division of revenue

Of additional allocations, provinces receive R45.6 billion and municipalities R10.5 billion

Excluding a contingency reserve of R42 billion and provisions made for debt-service costs, the medium-term expenditure framework (MTEF) provides for total additional non-interest expenditure of R112.2 billion. Of this, national government receives R56.2 billion, provinces R45.6 billion and municipalities R10.5 billion. Total non-interest spending grows by 6.5 per cent annually over the period, from R691.2 billion in 2009/10 to R860.3 billion in 2012/13.

Table 9.1 shows the division of revenue for the 2010 Budget, taking account of the revenue-raising capacities and spending responsibilities of each sphere of government. The division of revenue is informed by the recommendations of the Financial and Fiscal Commission (FFC) tabled in Parliament in May 2009. These recommendations, and government's response, are discussed in the Explanatory Memorandum to the Division of Revenue.

Table 9.1 Division of nationally raised revenue, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
State debt cost	52 192	52 877	54 394	57 600	71 358	88 463	104 022
Non-interest expenditure	418 000	488 619	581 670	691 217	746 785	799 875	860 292
<i>Percentage increase</i>	<i>14.3%</i>	<i>16.9%</i>	<i>19.0%</i>	<i>18.8%</i>	<i>8.0%</i>	<i>7.1%</i>	<i>7.6%</i>
Total expenditure	470 192	541 496	636 063	748 816	818 143	888 338	964 314
<i>Percentage increase</i>	<i>12.8%</i>	<i>15.2%</i>	<i>17.5%</i>	<i>17.7%</i>	<i>9.3%</i>	<i>8.6%</i>	<i>8.6%</i>
Contingency reserve	–	–	–	–	6 000	12 000	24 000
Division of available funds							
National departments	210 172	242 632	289 346	346 103	359 106	370 688	393 757
Provinces	181 328	208 666	248 286	294 968	322 858	350 547	369 348
Equitable share	149 246	171 054	201 796	236 878	260 974	280 689	294 780
Conditional grants	32 082	37 612	46 491	53 890	61 884	69 858	74 568
Gautrain loan	–	–	–	4 200	–	–	–
Local government	26 501	37 321	44 037	50 146	58 821	66 640	73 187
Equitable share ¹	18 058	20 676	25 560	24 356	30 168	33 940	37 234
General fuel levy sharing with metropolitan municipalities	–	–	–	6 800	7 542	8 531	8 958
Conditional grants	8 443	16 645	18 477	18 990	21 111	24 169	26 995
Total	418 000	488 619	581 670	691 217	740 785	787 875	836 292
<i>Percentage shares</i>							
National departments	50.3%	49.7%	49.7%	50.1%	48.5%	47.0%	47.1%
Provinces	43.4%	42.7%	42.7%	42.7%	43.6%	44.5%	44.2%
Local government	6.3%	7.6%	7.6%	7.3%	7.9%	8.5%	8.8%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) and Joint Services Board (JSB) levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant will only be allocated to district municipalities.

Revisions to provincial budget framework

In addition to supporting rural development and agriculture, provinces are at the forefront of the delivery of education, health care, social welfare and human settlements. The additional R45.6 billion for provinces over the medium term is intended to sustain the social progress made in recent years, meet government's broader developmental outcomes and mitigate the effects of the economic downturn on the poor.

Over the period ahead, provincial departments have undertaken to cut non-essential expenditure from their budgets and prioritise activities that will lead to improved outcomes, particularly in education and health. Provincial executive councils will take the lead in promoting innovative measures to achieve cost savings and reprioritise spending.

Provincial executive councils will lead cost-saving and reprioritisation initiatives

Of the additional allocations to provinces, R33.9 billion is added to the provincial equitable share and R11.7 billion to conditional grants. These additions result in transfers to provinces growing by 7.8 per cent annually, from R294.9 billion in 2009/10 to R369.3 billion in 2012/13. Table 9.2 shows the breakdown of national transfers to provinces.

Table 9.2 Total transfers to provinces, 2008/09 – 2012/13

R million	2008/09	2009/10		2010/11	2011/12	2012/13
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	36 691	41 341	42 820	47 587	51 220	54 378
Free State	15 777	17 788	18 374	20 747	22 361	23 364
Gauteng	46 685	56 448	58 402	58 902	63 608	66 814
KwaZulu-Natal	52 068	58 818	60 811	68 485	74 524	79 030
Limpopo	30 045	33 981	35 240	39 099	42 201	44 101
Mpumalanga	19 475	22 107	23 079	25 545	27 668	29 064
Northern Cape	6 961	7 971	8 139	9 279	9 959	10 636
North West	16 844	19 282	19 957	21 517	23 637	24 706
Western Cape	23 742	26 785	28 145	31 696	34 499	36 316
Unallocated	–	–	–	–	870	940
Total	248 286	284 519	294 968	322 858	350 547	369 348

Provincial equitable share

Increases of R10.7 billion, R11.3 billion and R11.9 billion result in the provincial equitable share growing by an average 7.6 per cent a year, from a revised R236.9 billion in 2009/10 to R294.8 billion in 2012/13.

Equitable share allocations focus on enhanced outcomes in health and education

The revisions to the equitable share are to extend and improve service delivery outcomes in health and education, and put provinces in a better position to help local governments implement the Municipal Finance Management Act.

The provincial equitable shares are determined by means of a redistributive formula based on demographic data. The structure of the formula and the data that underpin it are discussed in detail in the Explanatory Memorandum to the Division of Revenue. The provincial equitable share has been revised to accommodate the function shift of the further education and training (FET) colleges to the Department of Higher Education and Training, and the amalgamation of Qwa Qwa National Park, previously a provincial reserve, into the Golden Gate Highlands National Park.

The provincial equitable shares are set out in Table 9.3.

Table 9.3 Provincial equitable shares, 2008/09 – 2012/13

R million	2008/09	2009/10		2010/11	2011/12	2012/13
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	31 833	35 455	36 830	40 134	42 856	44 693
Free State	12 563	14 034	14 592	15 959	17 055	17 788
Gauteng	33 388	38 145	39 614	45 134	48 792	51 459
KwaZulu-Natal	43 674	49 426	51 409	56 743	61 359	64 761
Limpopo	26 380	29 514	30 655	33 238	35 398	36 820
Mpumalanga	16 639	18 783	19 496	21 323	22 865	23 943
Northern Cape	5 423	6 146	6 364	7 102	7 557	7 963
North West	14 014	15 930	16 514	17 314	18 680	19 682
Western Cape	17 880	20 449	21 404	24 026	26 128	27 670
Total	201 796	227 883	236 878	260 974	280 689	294 780

Conditional grants to provinces

Conditional grant baselines grow from R54.3 billion in 2009/10 to R74.6 billion in 2012/13. This increase includes provision for funding FET colleges, previously funded through the provincial equitable share. Table 9.4 shows the revisions to provincial conditional grant allocations.

Excluding technical shifts, conditional grant baselines grow by R20.3 billion over the medium term

Table 9.4 Revision to provincial conditional grants allocations, 2010/11 – 2012/13

R million	2010/11	2011/12	2012/13	Total
Technical adjustments	3 322	3 562	3 740	10 624
Arts and Culture	19	20	21	60
Community library services	19	20	21	60
Higher Education and Training	3 373	3 542	3 719	10 634
Further education and training colleges	3 373	3 542	3 719	10 634
Public Works	-69	-	-	-69
Expanded public works programme incentive for the infrastructure sector	-69	-	-	-69
Addition to baselines	2 528	3 305	5 832	11 666
Basic Education	-	70	220	290
Dinaledi schools	-	70	100	170
National school nutrition programme	-	-	120	120
Higher Education and Training	400	430	450	1 280
Further education and training colleges	400	430	450	1 280
Health	1 840	2 800	3 900	8 540
Comprehensive HIV and Aids	1 700	2 800	3 900	8 400
Hospital revitalisation	140	-	-	140
Human Settlements	134	-	1 000	1 134
Human settlements development	-	-	1 000	1 000
Housing disaster relief	134	-	-	134
National Treasury	-	-	262	262
Infrastructure grant to provinces	-	-	262	262
Public Works	57	-	-	57
Expanded public works programme grant for the social sector	57	-	-	57
Transport	98	5	-	103
Gautrain rapid rail link	98	5	-	103

The 2010 Budget introduces the following new conditional grants to provinces:

- The *FET colleges grant* receives R11.9 billion over the MTEF period. This includes R10.7 billion taken out of the provincial equitable share to establish this conditional grant. FET colleges will eventually be fully administered by the Department of Higher Education and Training.
- The *Dinaledi schools grant* receives R170 million in the outer two years to enhance the quality of maths and science grade 12 passes in these schools by providing additional resources, including laboratories, lab equipment, textbooks and additional teacher training.
- The *expanded public works programme grant for the social sector* receives R56.6 million in 2010/11. This allocation will subsidise non-profit organisations working in home- and community-based care programmes for the Departments of Social Development and Health, ensuring that previously unpaid volunteers receive a stipend. An

incentive model will be developed during 2010/11 and further allocations are contingent on the progress made in this regard.

- The *housing disaster relief grant* receives R133.8 million in 2010/11 to repair subsidised houses damaged by storms in KwaZulu-Natal.

Table 9.5 Conditional grants to provinces, 2009/10 – 2012/13

R million	2009/10	2010/11	2011/12	2012/13
Agriculture, Forestry and Fisheries	974	1 117	1 437	1 509
Agricultural disaster management	157	–	–	–
Comprehensive agricultural support programme	715	862	979	1 028
Ilima/letsema projects	50	200	400	420
Land care programme: poverty relief and infrastructure development	51	55	58	61
Arts and Culture	441	513	543	571
Community library services	441	513	543	571
Basic Education	2 575	3 931	5 048	5 447
Dinaledi schools	–	–	70	100
HIV and Aids (life skills education)	181	188	199	209
National school nutrition programme	2 395	3 663	4 579	4 928
Technical secondary schools recapitalisation	–	80	200	210
Higher Education and Training	3 168	3 773	3 972	4 169
Further education and training colleges	3 168	3 773	3 972	4 169
Health	16 417	19 853	21 972	24 030
Comprehensive HIV and Aids	4 376	6 012	7 433	8 765
Forensic pathology services	502	557	590	620
Health disaster response (cholera)	50	–	–	–
Health professions training and development	1 760	1 865	1 977	2 076
Hospital revitalisation	3 085	4 021	4 172	4 381
National tertiary services	6 614	7 398	7 799	8 189
2010 FIFA World Cup health preparation strategy	30	–	–	–
Human Settlements	12 592	15 161	17 222	17 939
Housing disaster relief	150	134	–	–
Human settlements development	12 442	15 027	17 222	17 939
National Treasury	9 249	11 315	13 091	14 008
Infrastructure grant to provinces	9 249	11 315	13 091	14 008
Public Works	1 401	1 484	1 962	2 060
Devolution of property rate funds	1 350	1 096	1 162	1 220
Expanded public works programme incentive for the infrastructure sector	51	331	800	840
Expanded public works programme grant for the social sector	–	57	–	–
Sport and Recreation South Africa	402	426	452	475
Mass sport and recreation participation programme	402	426	452	475
Transport	6 670	4 312	4 159	4 361
Gautrain rapid rail link	2 977	438	5	–
Overload control	10	11	–	–
Public transport operations	3 532	3 863	4 153	4 361
Sani pass roads	34	–	–	–
Transport disaster management	117	–	–	–
Total	53 890	61 884	69 858	74 568

Existing grants are revised upwards to protect the real value of spending and extend their reach. Table 9.5 sets out the conditional grants to provinces over the medium term.

Putting more people to work through public works

To support the rollout of the expanded public works programme, government will provide technical support to provincial departments and municipalities to improve labour-intensive implementation of conditional infrastructure grants. Additional funding of R10 million has been provided on the 2010/11 Public Works Vote to enhance resources in low-capacity and rural municipalities. These programme enhancements include:

- Expanding support to provincial roads departments for upgrading road maintenance programmes
- Building on the work of the Department of Water and Environmental Affairs in the construction of dams and canals, and the Department of Minerals in the construction of power stations
- Engaging with state-owned entities to ensure labour-intensive methods in infrastructure projects
- Training of 1 000 contractors to help them implement projects in a labour-intensive manner.

A number of revisions have been made to support health-care outcomes. The *comprehensive HIV and Aids grant* is revised upwards by R1.7 billion in 2010/11, R2.8 billion in 2011/12 and R3.9 billion in 2012/13 to meet the higher uptake of antiretroviral medication arising from policy changes announced in December 2009 expanding treatment. The *hospital revitalisation grant* is revised upwards by R140 million in 2010/11 to cover the cost of refurbishment work on the Mitchells Plain Hospital.

Aids treatment is expanded in accordance with policy shift announced in 2009

An amount of R1 billion is added to the *human settlements development grant* in 2012/13 to accommodate higher costs and ensure that an accelerated rollout of housing is supported by the necessary infrastructure. Those municipalities accredited in terms of the Housing Act (1997) will receive allocations from provinces to administer national housing programmes.

The *infrastructure grant to provinces* is increased by R262 million in 2012/13 to upgrade school infrastructure and maintenance, build classrooms and laboratories, and provide security at schools.

Further support for school infrastructure, laboratories and enhanced maintenance

The *national school nutrition programme grant* is increased by R120 million in 2012/13 to ensure real growth in resources allocated for this programme. During 2008/09 this grant ensured that 6.4 million children received nutritious meals and enabled the establishment of 6 500 food gardens.

The Department of Arts and Culture has shifted money to the *community library services grant*, which increases by R18.7 million in 2010/11, R19.8 million in 2011/12 and R21 million in 2012/13 to cover the cost of building an additional library in the Eastern Cape, and to cover operational expenses of libraries in Western Cape and KwaZulu-Natal.

Reprioritisation of funds expands support for community libraries

The national Department of Transport has added R97.7 million in 2010/11 and R5.3 million in 2011/12 to the *Gautrain rapid rail link grant* to provide for contractual adjustments to cost projections.

Consolidated provincial budget estimates

Preliminary provincial budget estimates, summarised in Table 9.6, reflect the policy priorities outlined here and are in line with the 2009 *Medium Term Budget Policy Statement*.

Table 9.6 Consolidated provincial expenditure by function, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Average annual growth	
	Outcome			Revised estimate	Medium-term estimates ¹			2006/07–2009/10	2009/10–2012/13
Education	80 783	90 462	110 323	128 377	141 636	153 939	161 993	16.7%	8.1%
Health	51 938	60 645	72 444	87 596	93 465	101 435	107 833	19.0%	7.2%
Social protection	5 107	6 151	8 301	9 269	10 490	11 557	12 150	22.0%	9.4%
Housing and community development	10 309	12 497	15 688	18 514	20 793	23 227	23 269	21.6%	7.9%
Transport	19 206	22 132	28 768	29 202	26 636	28 341	29 697	15.0%	0.6%
Agriculture	4 497	4 927	6 012	6 547	7 136	7 828	8 228	13.3%	7.9%
Other functions	17 073	20 162	25 054	26 751	28 068	30 238	31 301	16.1%	5.4%
Total expenditure	188 913	216 976	266 591	306 255	328 224	356 567	374 471	17.5%	6.9%
Total revenue	189 313	218 041	257 678	304 387	331 989	360 223	379 578	17.2%	7.6%
Budget balance²	400	1 065	-8 912	-1 869	3 765	3 656	5 107		
Economic classification									
Current payments	142 865	163 922	200 816	233 895	254 314	274 313	289 349	17.9%	7.3%
<i>Of which:</i>									
<i>Remuneration</i>	104 357	119 973	145 337	169 974	183 274	196 558	205 902	17.7%	6.6%
Transfers and subsidies	31 009	36 973	45 862	49 209	47 477	51 975	53 067	16.6%	2.5%
Payments for capital assets	14 940	15 933	19 853	23 106	26 429	30 274	32 051	15.6%	11.5%
Payments for financial assets	99	148	60	46	4	4	5	-22.7%	-53.7%
<i>Percentage shares of total expenditure</i>									
Social services	73.0%	72.5%	71.7%	73.5%	74.8%	74.9%	75.3%		
Other functions ³	27.0%	27.5%	28.3%	26.5%	25.2%	25.1%	24.7%		

1. Medium-term estimates are based on draft budgets of provinces as at 31 January 2010 and may differ from the final budgets tabled in February.

2. A positive number reflects a surplus and a negative number a deficit.

3. Includes housing and community development, transport and agriculture.

Spending is budgeted to grow by 6.9 per cent a year over the medium term

Taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, spending by provinces is budgeted to grow by an average of 6.9 per cent a year, reaching R374.5 billion in 2012/13.

The following trends emerge from draft provincial budgets:

- Spending by provincial education departments is budgeted to grow 8.1 per cent per year over the period to ensure that the system responds to the educational needs of all learners. Education spending is set to grow to R162 billion by 2012/13.
- Provincial health spending is set to grow 7.2 per cent per year, to R107.8 billion by 2012/13, following growth of 18 per cent in 2009/10.
- Social development spending, which provides welfare services and early childhood development programmes, is set to grow from R9.3 billion in 2009/10 to R12.2 billion by 2012/13.
- Provinces plan to spend just over R88.8 billion on capital assets in roads, health, education and agriculture over the next three years.

Within two weeks after the tabling of the 2010 Budget, provinces will table their own budgets, after which provincial departments will put

forward their strategic and annual performance plans, detailing how these budgets will help to achieve government's strategic outcomes.

Revisions to local government budget framework

To supplement municipal own revenue, an additional R12.2 billion is allocated to local government through direct and indirect transfers over the medium term to deal with increased costs of bulk purchases such as electricity, and to expand and improve the quality of services.

Funds totalling R12.2 billion help municipalities meet rising service delivery costs

National transfers to local government, which grow by 8.4 per cent from R50.1 billion in 2009/10 to R73.2 billion by 2012/13, are an important tool for supporting local operations and services.

Table 9.7 shows the revisions of transfers to local government.

Table 9.7 Revision of transfers to local government, 2010/11 – 2012/13

R million	2010/11	2011/12	2012/13	Total
Technical adjustments	-375	-724	-1 281	-2 381
Direct transfers	-521	-724	-1 281	-2 527
Public transport infrastructure and systems grant	-590	-724	-1 281	-2 596
Expanded public works programme incentive for the infrastructure sector	69	–	–	69
Indirect transfers	146	–	–	146
Water services operating subsidy grant	146	–	–	146
Addition to baselines	1 682	2 950	7 600	12 232
Direct transfers	1 528	2 400	6 550	10 478
Equitable share	900	2 050	3 750	6 700
Neighbourhood development partnership grant	400	350	300	1 050
Municipal infrastructure grant	–	–	2 500	2 500
Municipal drought relief grant	228	–	–	228
Indirect transfers	154	550	1 050	1 754
Rural households infrastructure grant	100	350	750	1 200
Regional bulk infrastructure grant	54	200	300	554

Table 9.8 sets the national transfers to local government over the medium term.

A turnaround strategy for local government

While much progress has been made in the transformation of local government, there is still a long way to go before all 283 municipalities are fully functional and sustainable.

Government approved a strategy to turn around local government in December 2009. The strategy responds to both internal problems that can be directly influenced at municipal level – such as transparency of procurement systems and quality of appointments – and to external factors, such as income-generation potential, inappropriate legislation and regulation, and macroeconomic conditions.

The key interventions aim to achieve the following:

- Better support by national and provincial government for local government, and enhanced oversight by provinces. All three spheres of government should improve the way they work together.
- Assessments by municipalities of their performance, and the adoption of tailored turnaround strategies.
- Development of a social compact on local government to include all citizens.

Table 9.8 Transfers to local government, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
Direct transfers	26 501	37 321	44 037	50 146	58 821	66 640	73 187
Equitable share	18 058	20 676	25 560	24 356	30 168	33 940	37 234
General fuel levy sharing with metros	–	–	–	6 800	7 542	8 531	8 958
Conditional grants	8 443	16 645	18 477	18 990	21 111	24 169	26 995
Infrastructure	7 447	15 128	17 095	16 910	19 039	22 072	24 793
Capacity-building and other	996	1 517	1 382	2 081	2 072	2 097	2 202
Indirect transfers	1 436	1 884	2 307	3 017	3 125	4 014	4 618
Infrastructure	943	1 334	1 928	2 774	2 979	4 014	4 618
Capacity-building and other	493	550	379	243	146	–	–
Total	27 938	39 205	46 344	53 163	61 946	70 654	77 805

The local government equitable share

The equitable share grows by 15.2 per cent over the MTEF period

The primary funding mechanism to support municipal service delivery is the *local government equitable share*. Increased support for the equitable share is intended to supplement municipal own revenue to achieve universal access to basic public services. The additional R6.7 billion allocated over the MTEF results in the equitable share growing by 15.2 per cent a year, from R24.4 billion in 2009/10 (excluding sharing of general fuel levy) to R37.2 billion in 2012/13.

The strong growth in the equitable share caters for the increased cost of bulk services, such as electricity, which makes up about 70 per cent of the cost to municipalities of providing some free electricity to consumers. The bulk price increase for 2009/10 was 31.4 per cent, with similar increases likely over the next three years.

Infrastructure transfers to local government

Over and above the additions to the local government equitable share, the 2010 Budget earmarks an additional R3.8 billion for infrastructure-related spending by municipalities. Table 9.9 sets out the infrastructure transfers to local government over the medium term.

Cities to play a greater role in reducing housing and service backlogs

Up to 60 per cent of the housing backlog is found in urban informal settlements, which continue to grow at a rapid pace, placing great pressure on municipalities to provide housing and associated services such as water, sanitation and electricity.

Large cities have the capacity to play a greater role in providing sustainable human settlements. Consistent with Section 156(4) of the Constitution, a process is currently under way to accredit large municipalities to administer national housing programmes.

This policy shift should improve coordination and alignment of interventions in the built environment. It is expected that cities will manage these developments based on long-term planning that takes into account all of their infrastructure requirements. This will require streamlining all municipal financing over the medium to long term. Starting with the *municipal infrastructure grant (cities)*, government is exploring ways to rationalise infrastructure grants at municipal level into a broader *human settlements grant for cities*.

Table 9.9 Infrastructure transfers to local government, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
Direct transfers	7 447	15 128	17 095	16 910	19 039	22 072	24 793
Municipal infrastructure grant	5 938	8 754	9 091	11 107	12 529	15 069	18 322
National electrification programme	391	462	589	933	1 020	1 097	1 151
Public transport infrastructure and system grant	518	1 174	2 920	2 418	3 699	4 425	4 125
Neighbourhood development partnership grant	–	41	182	551	1 030	1 190	1 182
2010 FIFA World Cup stadiums development grant	600	4 605	4 295	1 661	302	–	–
Rural transport services and infrastructure grant	–	–	9	10	10	11	12
Electricity demand side management	–	–	–	175	220	280	–
Municipal drought relief grant	–	91	9	54	228	–	–
Indirect transfers	943	1 334	1 928	2 774	2 979	4 014	4 618
National electrification programme	893	973	1 148	1 478	1 752	1 770	1 914
Neighbourhood development partnership grant	50	61	54	111	125	100	105
Regional bulk infrastructure grant	–	300	450	612	893	1 675	1 849
Backlogs in water and sanitation at clinics and schools	–	–	186	350	–	–	–
Backlogs in the electrification of clinics and schools	–	–	90	149	–	–	–
Electricity demand-side management	–	–	–	75	109	119	–
Rural households infrastructure grant	–	–	–	–	100	350	750
Total	8 390	16 462	19 023	19 684	22 018	26 086	29 411

The *municipal infrastructure grant*, which augments local governments' own resources, is allocated a further R2.5 billion in 2012/13. Key outputs of this programme are enhanced access to water, sanitation, electricity and roads. An allocation of R1.1 billion is added to the *neighbourhood development partnership grant* to develop community infrastructure and create a platform for private-sector investment that improves quality of life in townships. Projects in underserved neighbourhoods are prioritised.

A *rural households infrastructure grant* has been introduced, amounting to R100 million in 2010/11, R350 million in 2011/12 and R750 million in 2012/13. This will cater for the rollout of on-site water and sanitation services to very poor households where conventional connector services are not viable or appropriate.

Support for on-site water and sanitation in very poor rural households

Developing innovative infrastructure and technology solutions in rural areas

Nearly three-quarters of South Africa's 283 municipalities operate in rural settings, where up to 70 per cent of water and sanitation backlogs are found.

Rural municipalities are often characterised by dispersed settlement patterns and inaccessible terrain. Infrastructure for water supply, sanitation, energy and roads is needed to support livelihoods and household agricultural operations. Given population dispersal and topography, these services are not generally dependent on bulk infrastructure. For example, where conditions allow, boreholes with hand pumps or rain water harvesting may be more cost-efficient and practical than piping in water from a great distance.

Over the next three years, R1.2 billion is allocated for the delivery of rural water and sanitation infrastructure. Government is emphasising technological solutions that can align community needs with sustainable supply.

The *regional bulk infrastructure grant* receives R500 million in the outer two years of the MTEF to support the financing of regional bulk water and sanitation projects that cut across several municipal boundaries. A further R54 million is added to the *regional bulk infrastructure grant* to provide drought relief in Limpopo. A *municipal drought relief grant* is allocated R228 million in 2010/11 to provide assistance to municipalities in the Eastern Cape and Western Cape.

Capacity building and other recurrent transfers

'Our reason for being is because the nation requires our services, and we must render them efficiently and humanely – in a manner that recognises that these are people who pay our salaries.'

– Minister of Home Affairs
Nkosazana Dlamini-Zuma

The provincial equitable share receives additional funds to ensure that provinces can improve the support they provide to municipalities to implement the Municipal Finance Management Act. The *municipal systems improvement grant* and *financial management grant* helps to build financial management capacity in local government.

The National Treasury, working with provincial treasuries, continues to improve processes to exercise oversight of municipal finances, including development of early warning systems for service delivery problems. The National Treasury and Department of Cooperative Governance will jointly monitor municipal financial performance and provide support as needed.

The *water services operating subsidy grant* is allocated an additional R91.7 million in 2010/11 to cover costs related to the transfer of water schemes from the Department of Water Affairs to municipalities. This grant is being phased into the local government equitable share over the 2010 MTEF, based on progress made to deal with outstanding issues related to the transfer of such schemes, including refurbishment and maintenance costs. An amount of R69 million is shifted from the *expanded public works programme incentive grant to provinces* to similar programmes run by local government, focused on rural municipalities.

Table 9.10 shows other recurrent transfers to municipalities, including capacity-building grants.

Table 9.10 Capacity-building and other current transfers to local government, 2006/07 – 2012/13

	2006/07	2007/08	2008/09	2009/10 Revised estimate	2010/11	2011/12	2012/13
R million							
Direct transfers	996	1 517	1 382	2 081	2 072	2 097	2 202
Municipal systems improvement grant	200	200	200	200	212	225	236
Restructuring grant	265	530	–	–	–	–	–
Financial management grant	145	145	180	300	365	385	404
2010 FIFA World Cup host city	–	–	–	508	210	–	–
Water services operating subsidy grant	386	642	1 002	871	662	380	399
Expanded public works programme - Phase 2 incentive grant	–	–	–	202	623	1 108	1 163
Indirect transfers	493	550	379	243	146	–	–
Financial management grant: DBSA	53	53	50	–	–	–	–
Water services operating subsidy grant	440	497	329	243	146	–	–
Total	1 489	2 067	1 761	2 323	2 218	2 097	2 202