7

Provincial and local government

In brief

- The 2014 division of revenue allocates 47.5 per cent of nationally raised revenue to national departments, 43.5 per cent to provinces and 9 per cent to municipalities.
- In addition to large baseline allocations over the medium-term expenditure framework (MTEF) period, further support is provided to roll out new vaccines, expand the antiretroviral programme, upgrade informal settlements, eradicate bucket sanitation, develop more integrated human settlements and fund inflation-linked provincial wage increases.
- In line with the goals of the National Development Plan (NDP), government is providing cities with incentives to change the way they plan infrastructure so that developments lead to more integrated, compact and efficient urban environments.

Overview

Provincial and local governments play critical roles in eliminating poverty and reducing inequality

Provincial and local governments play critical and complementary roles in eliminating poverty and reducing inequality. Provincial health, education and housing functions support the development of healthy communities, and lay the foundations for faster economic growth. Municipalities deliver basic services such as water, electricity, sanitation and solid waste removal. Both provinces and municipalities manage extensive public road networks, and support or provide public transport services. They also directly manage aspects of planning and regulatory systems that control land use, influence infrastructure rollout and facilitate economic activity.

Over the past 20 years, there has been a broad expansion of access to public services. The 2014 Budget allocates 52.5 per cent of nationally raised resources to provinces and local government, and complements these allocations with measures to improve service-delivery capacity. In addition, provinces and municipalities raise their own revenue, which accounts respectively for 3 per cent and 73 per cent of their total revenue.

The evolution of South Africa's intergovernmental fiscal system

South Africa has made important strides in building its intergovernmental fiscal system over the past 20 years.

- **General budget and financial management reforms**: Legislation, including the Public Finance Management Act (1999) and Municipal Finance Management Act (2003), modernised public financial management and enhanced transparency and accountability.
- **Budget preparation**: Government's three-year medium-term expenditure framework (MTEF) provides greater certainty and promotes financial discipline in all three spheres of government.
- **Budget implementation**: Once a budget is adopted by the legislature, it becomes a law that all officials are required to implement, with limited opportunity for deviation. Departments are required to report on actual revenue and expenditure on a monthly and quarterly basis. Annual financial statements are audited and, along with monthly and quarterly reports, are available to the public.

As with any system that is still maturing, some challenges remain.

- **Concurrent functions**: National government's role is to formulate policy, and develop norms and standards; provinces and municipalities are mainly responsible for implementation. In practice the lines of responsibility and accountability are often blurred. These challenges can be overcome through institutional frameworks that allow for greater coordination.
- **Compliance**: Gaps are evident in the system, with a high number of adverse audit outcomes, service-delivery failures due to underspending on infrastructure and maintenance, and escalating operating costs due to inadequate controls. Various initiatives are under way to address these gaps, including strengthening national oversight, expenditure reviews and financial management capacity development.

The bulk of government's infrastructure spending takes place in local and provincial government. Public services have not yet reached all South Africans, and in some areas, poor maintenance has resulted in either loss of services or deterioration in quality. Addressing these challenges is a priority in the 2014 Budget.

Division of revenue

Provinces and municipalities receive 52.5 per cent of the division of revenue

The Constitution requires a division of nationally raised resources between national, provincial and local government. This is done through the Division of Revenue Bill, which is tabled with the national budget. Over the MTEF period ahead, national department allocations total 47.5 per cent of available funds after debt costs and the contingency reserve have been provided for, provincial allocations total 43.5 per cent and local government allocations total 9 per cent.

Provinces are responsible for social services like education, health and social development; economic functions like agriculture and roads; and provincial governance and administration which include the legislature, provincial treasury, local government and human settlements.

Local government is responsible for water and sanitation, electricity reticulation, refuse removal, storm water management and municipal transport and roads. Local government is also responsible for community services (such as parks, sport and recreation, municipal roads and street lighting). To reduce the cost of living for poor households, the provision of free or subsidised services is also paid for by local and provincial government.

Transfers to provinces and local government are made through the *equitable share* and *conditional grants*. The equitable shares are determined by formulas that take into account demographic and developmental factors. Conditional grants are designed to achieve specific objectives, and provinces and municipalities must fulfil certain conditions to receive them.

Table 7.1 summarises the division of revenue for the 2014 Budget, taking into account the revenue-raising capacities and spending responsibilities of each level of government.

Table 7.1 Division of nationally raised revenue, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Outcome		Revised estimate		Medium-term estimates	
Division of available funds							
National departments	**356 027**	**382 712**	**412 706**	**449 251**	**489 424**	**522 257**	**552 983**
of which:							
Indirect transfers to provinces	*–*	*76*	*860*	*2 693*	*5 413*	*5 044*	*4 127*
Indirect transfers to local government	*2 939*	*2 770*	*4 956*	*5 697*	*7 726*	*9 467*	*10 221*
Provinces	**322 822**	**362 488**	**388 238**	**414 932**	**444 423**	**477 639**	**508 254**
Equitable share	265 139	291 736	313 016	338 937	362 468	387 967	412 039
Conditional grants	57 682	70 753	75 222	75 995	81 955	89 672	96 215
Local government	**60 904**	**68 251**	**76 430**	**83 670**	**90 815**	**100 047**	**105 187**
Equitable share	30 541	33 173	37 139	39 789	44 490	50 208	52 869
Conditional grants	22 821	26 505	30 251	34 268	36 135	39 181	41 094
General fuel levy sharing with metropolitan municipalities	7 542	8 573	9 040	9 613	10 190	10 659	11 224
Non-interest allocations	**739 752**	**813 451**	**877 374**	**947 853**	**1 024 662**	**1 099 943**	**1 166 424**
Percentage increase	*7.2%*	*10.0%*	*7.9%*	*8.0%*	*8.1%*	*7.3%*	*6.0%*
Debt-service costs	66 227	76 460	88 121	101 256	114 901	126 647	139 201
Contingency reserve	–	–	–	–	3 000	6 000	18 000
Main budget expenditure	**805 979**	**889 911**	**965 496**	**1 049 109**	**1 142 562**	**1 232 590**	**1 323 624**
Percentage increase	*7.9%*	*10.4%*	*8.5%*	*8.7%*	*8.9%*	*7.9%*	*7.4%*
Percentage shares							
National departments	*48.1%*	*47.0%*	*47.0%*	*47.4%*	*47.8%*	*47.5%*	*47.4%*
Provinces	*43.6%*	*44.6%*	*44.2%*	*43.8%*	*43.4%*	*43.4%*	*43.6%*
Local government	*8.2%*	*8.4%*	*8.7%*	*8.8%*	*8.9%*	*9.1%*	*9.0%*

Provinces spent 98.1 per cent of their budgets; municipalities spent 84.6 per cent their infrastructure grants

In 2012/13, national expenditure amounted to R965.5 billion (including transfers to provinces and municipalities) out of a total adjusted appropriation of R971.5 billion. This represents underspending of 0.6 per cent compared with 1.1 per cent in 2011/12. Provincial government underspent its adjusted budget of R402.7 billion for 2012/13 by R7.5 billion (1.9 per cent), compared with underspending of R4.9 billion (1.3 per cent) in the previous year. Municipalities spent R19.4 billion or 84.6 per cent, of their infrastructure grants in the 2012/13 municipal financial year, up from 78.5 per cent in 2011/12.

The *Explanatory Memorandum to the Division of Revenue* sets out the provincial and municipal allocations, details the equitable share formula and explains how the division takes into account the recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the *Budget Review* on the National Treasury website (www.treasury.gov.za).

Transfers to provinces

Provinces account for 97 per cent of total government spending on health

Provincial departments have limited revenue-raising powers, with 97 per cent of their spending financed through the division of revenue. Provinces account for 97 per cent of total government spending on health, 82 per cent of government spending on education and 11 per cent of government spending on social development. To finance these and other priorities, provincial governments are allocated 43.4 per cent of nationally raised revenue in 2014/15.

Table 7.2 Provincial equitable share, 2014/15 – 2016/17

R million	2014/15	2015/16	2016/17
Eastern Cape	52 154	55 389	57 876
Free State	20 883	22 223	23 158
Gauteng	68 673	74 214	80 244
KwaZulu-Natal	78 138	83 348	87 887
Limpopo	43 274	46 109	48 622
Mpumalanga	29 355	31 449	33 728
Northern Cape	9 652	10 277	10 941
North West	24 707	26 528	28 386
Western Cape	35 631	38 431	41 196
Total	**362 468**	**387 967**	**412 039**

Health, education, and social development services account for over three-quarters of provincial spending. These are labour-intensive services and as a result, more than 60 per cent of provincial budgets are spent on compensation of employees.

Reducing costs and increasing value for money

During 2013, the National Treasury and its provincial counterparts conducted joint expenditure reviews. The reviews identified areas where inefficient operations can be improved to increase value for money and ensure spending on policy priorities. The review process has shown that:

- Efficiencies in the supply of learning and teaching support materials vary widely, underlining the need to adopt best practice across all provinces.
- Tracking and management of medicines is often poor. Improvements in this area would reduce waste by removing expired medicines from circulation and ensuring the availability of sufficient quantities of drugs.
- Better management of internal requisition procedures at hospitals and clinics would reduce unnecessary laboratory tests.
- High lease costs, poor management of rentals and the absence of reliable immovable asset registers in some provinces inflate property costs.
- Numerous development agencies duplicate the work of departments. The mandates of these corporations are often unclear and there is poor monitoring of public entities by most provincial treasuries.

The Minister of Finance has written to the premiers and finance MECs to outline suggested improvements in each province. The initial results of these efforts should be seen when provinces table their 2014/15 budgets.

Most additions to equitable share fund inflation-linked wage increases

Table 7.3 shows conditional grants to provinces over the three-year spending period ahead. The largest component of transfers to provinces is the equitable share, accounting for 82 per cent of direct transfers. Over the next three years, the provincial equitable share is projected to grow by an average of 6.7 per cent a year. The 2014 MTEF adds R12 billion to the provincial equitable share baseline. Of this, R11.6 billion is for personnel adjustments to provide for the carry-through costs of higher-than-anticipated inflation on personnel budgets and the upgrade of clerical positions.

Table 7.3 Conditional grants to provinces, 2013/14 – 2016/17

R million	2013/14	2014/15	2015/16	2016/17	MTEF total
Provincial equitable share	**338 937**	**362 468**	**387 967**	**412 039**	**1 162 474**
Direct conditional grants	**75 995**	**81 955**	**89 672**	**96 215**	**267 842**
Comprehensive agricultural support programme	1 604	1 861	1 688	1 757	5 306
Ilima/Letsema projects	438	461	482	507	1 450
Land care programme: poverty relief and infrastructure development	109	68	68	72	208
Community library services	598	1 016	1 341	1 412	3 768
Dinaledi schools	109	111	116	122	350
Education infrastructure	6 160	6 929	9 469	10 038	26 436
HIV and Aids (life skills education)	204	221	226	238	686
National school nutrition programme	5 173	5 462	5 704	6 006	17 172
Technical secondary schools recapitalisation	190	233	244	257	735
Occupational-specific dispensation for education sector therapists	–	213	67	–	280
Provincial disaster	38	197	204	215	617
Comprehensive HIV and Aids	10 534	12 311	13 957	15 697	41 965
Health facility revitalisation	5 291	5 240	5 389	5 652	16 281
Health professions training and development	2 190	2 322	2 429	2 557	7 308
National tertiary services	9 620	10 168	10 636	11 200	32 004
National health insurance	51	70	74	78	222
Further education and training colleges	2 454	2 631	2 819	2 974	8 424
Human settlements development	17 028	17 084	18 533	20 410	56 027
Expanded public works programme integrated grant for provinces	357	349	357	412	1 117
Social sector expanded public works programme incentive for provinces	258	258	268	375	900
Substance abuse treatment	–	29	48	48	124
Mass participation and sport development	498	526	550	579	1 654
Provincial roads maintenance	8 538	9 361	9 952	10 292	29 606
Public transport operations	4 553	4 833	5 053	5 318	15 203
Total direct transfers	**414 932**	**444 423**	**477 639**	**508 254**	**1 430 316**
Indirect transfers	**2 693**	**5 413**	**5 044**	**4 127**	**14 583**
School infrastructure backlogs	1 956	2 939	2 433	2 611	7 982
National health	731	1 575	1 635	1 516	4 726
2014 African Nations Championship health and medical services	6	–	–	–	–
Human settlements development	–	899	975	–	1 875

Government's expenditure ceiling means that small adjustments have been made to several grants to accommodate spending pressures, most of which relate to compensation of employees. National and provincial departments worked with the National Treasury to identify programmes and grants where such reductions would have the least impact on service delivery. Details of the changes to conditional grants are contained in Annexure W1.

Provincial education budget of R597 billion over next three years

Provinces spend more than 40 per cent of their budgets on education services, which will amount to R597 billion over the next three years. Over the three-year spending period, R159.9 million is added to the *further education and training colleges grant* for the increased cost of compensation of employees due to higher-than-anticipated inflation. A new grant of R280 million will fund the costs of occupation-specific dispensation agreements for therapists in the education system. The latter grant will run for two years before being incorporated into the provincial equitable share.

Provinces spend more than 30 per cent of their budgets on health services, which will amount to R446 billion over the next three years. An additional R1 billion has been made available for the *comprehensive HIV and AIDS grant* in 2016/17 to expand antiretroviral treatment. A total of 2.5 million people are currently receiving antiretroviral treatment and some 500 000 are expected to join the programme in each of the next three years. The prevention of mother-to-child transmission programme has reduced transmission rates to 2 per cent; alongside new child vaccines, this has contributed to improvements in infant and child mortality.

New vaccine to reduce cancer of the cervix to be rolled out

An amount of R200 million per year is made available for the rollout of a new vaccine to reduce cancer of the cervix, which is the cause of 20 per cent of cancer deaths among South African women. These funds will be managed through an indirect grant in 2014/15 and 2015/16 and transferred through the provincial equitable share from 2016/17. The vaccine is expected to prevent about 2 500 deaths and 4 800 new cases per year.

Reducing corruption in provinces

The Accountant-General has conducted numerous forensic investigations into alleged irregularities and financial misconduct in the public service. Similar capacity is being established in all provincial treasuries.

Examples of these efforts to date include the following:

- In Limpopo, 27 forensic investigations have led to more than 300 cases being opened. Two heads of department and the director-general of the province were suspended, and 45 officials have been charged.
- In Free State, five officials were dismissed as a result of an illegal roads procurement scheme, six were suspended from the human settlements department and other investigations are under way.

In provincial public works departments there are concerns about corruption, abuse and charging inflated prices for infrastructure projects. Provinces are taking actions to end such practices. In Mpumalanga and North West, heads of the human settlements and public works departments have been suspended and charged. In the Eastern Cape, public works officials have been suspended.

The National Treasury is working on two measures to reduce the scope for corruption. The first is a proposal to amend the Treasury regulations to ensure that procurement plans are completed and submitted to national departments for assessment and approval before funds are made available. The second is an initiative by the Chief Procurement Officer to help provinces review contracts, compile a standard pricing guideline and promote more transversal contracting to reduce the number of tenders being issued and points where decisions are made. This, in turn, will reduce opportunities for manipulating supply chain management.

The National Treasury provides assistance to individual departments that wish to conduct their own investigations, and participates in the work of the Anti-Corruption Task Team.

In collaboration with community organisations, provinces will spend R50 billion over the MTEF to provide social development services that directly benefit the most vulnerable members of society. Over the next three years, funds are added to the provincial equitable share to expand the reach of shelters for victims of gender-based violence. A new conditional grant is introduced to establish substance-abuse treatment centres in the four provinces that do not have such public facilities.

Additional support to upgrade informal settlements in mining towns

Over the next two years, R1.9 billion has also been set aside from the *human settlements development grant* to provinces to create an indirect grant to upgrade sanitation infrastructure. In addition, R180 million is added to the *human settlements development grant* to accelerate the upgrading of informal settlements in mining towns, on top of the R1.1 billion added for this purpose in the 2013 MTEF.

Conditional grant encourages measurements of road usage and conditions

Provincial departments of roads, transport and public works made capital investments amounting to R9.8 billion in 2012/13. Reforms to provincial conditional grants require the authorities to measure and record road conditions and usage. Accurate, up-to-date records will help target spending on high-use roads or those in need of maintenance. Over time, this approach should result in faster travel times and lower transport costs.

National government will provide R15.2 billion over the three-year spending period to subsidise provincial bus lines that serve commuters and learners. This includes an additional R150 million to offset rising fuel and labour costs. Provinces also contribute to the costs of these services though their own funds, which provides an incentive to improve efficiency.

Comprehensive agricultural support grant provides small farmers with crop and livestock support

Individual provinces also undertake local economic development projects. Provinces play a key role in supporting small farmers and beneficiaries of the land reform programme. In 2014/15, the Department of Agriculture will allocate 70 per cent of its largest conditional grant to provinces – the *comprehensive agricultural support grant* – to provide small farmers with crop and livestock support.

Over the three-year spending period ahead, provinces are allocated R147.6 billion through direct and indirect grants for infrastructure, mainly for health, education, roads and housing.

Indirect grants play growing role in delivering infrastructure and services

An indirect grant allows a national department to perform a function (such as building infrastructure) on behalf of a province or municipality. No funds are transferred, but any infrastructure built is transferred to provincial or municipal ownership. Service-level agreements stipulate that the beneficiary must maintain the new facility.

Growth in indirect grants has accelerated markedly in recent years. This reflects government's intention to ensure delivery takes place while it is developing more institutional capacity. As provinces and municipalities improve their ability to spend funds efficiently, indirect grants may be converted back to direct grants. Over the MTEF period, R1.3 billion is shifted from the provincial indirect *national health grant* to the direct *health facility revitalisation grant.*

Provinces

In 2014/15, R82 billion will be transferred to provinces through direct conditional grants and R5.4 billion will be spent on their behalf through indirect grants, most of which are for schools and health facilities. Indirect grants make up 6.2 per cent of grants to provinces, compared with 3.4 per cent in the previous year.

Local government

In 2014/15, R36.1 billion will be transferred to municipalities through direct conditional grants and R7.7 billion will be spent on their behalf through indirect grants. Indirect grants make up 17.6 per cent of conditional grants to municipalities, compared with 14.3 per cent in the previous year.

A number of municipal grants have had funds shifted to their indirect components, or have had new indirect grant components created over the spending period ahead:

- R460 million is shifted from the direct *integrated national electrification programme grant* to its indirect component, implemented by Eskom. Funds were reduced from municipalities with weak past performance and the additions should enable Eskom to increase its rollout by 30 000 households.
- R3.3 billion is shifted into a new indirect component of the *municipal water infrastructure grant* through which the Department of Water Affairs will implement water supply projects.
- R132.8 million is shifted to the indirect component of the *rural households infrastructure grant.*

Weak planning is one of the main contributors to delays and underspending on infrastructure projects. Government is adopting a new approach, with stringent planning requirements for infrastructure grants in education and health.

Provinces need to bid for allocations using infrastructure management delivery system

These changes follow a decade of building capacity in provincial departments of health, education and public works through the Infrastructure Delivery Improvement Programme. This initiative resulted in average spending improving from about 85 per cent in 2006 to 95 per cent in 2012 – a period during which provincial infrastructure budgets more than doubled. The programme also developed a system to manage infrastructure delivery based on international standards and customised for domestic use. Conditional grant reforms that took effect in 2013/14 require provinces to bid for allocations using the planning requirements set out in the new system. Provinces that do so will receive financial incentives.

Transfers to local government

National transfers are particularly important for poor and rural municipalities

Local government raises revenue in the form of charges and taxes, and as a result only 27 per cent of their spending is financed through the division of revenue. There are, however, significant disparities in municipal tax bases, and national transfers are particularly important for poor and rural municipalities. The country's eight metropolitan municipalities have projected budgets totalling R196.9 billion in 2014/15, of which 17 per cent is funded through nationally raised revenue. In contrast, in the same year, the 70 most rural local municipalities have total projected budgets of R17.1 billion, 73 per cent of which is funded by national transfers.

The new local government equitable share formula supports municipalities with lower revenue-raising potential. As a result, over 50 per cent of 2014/15 allocations go to the more rural local and district municipalities.

Transfers to municipalities stabilise at about 9 per cent of the total division of revenue over the MTEF period, up from 3 per cent in 2000/01. Between 2000/01 and 2013/14, the equitable share for local government grew at an annual average rate of 22.9 per cent, and over the MTEF is projected to grow by 10.4 per cent.

Substantial resources directed towards provision of water, sanitation and electricity

To lower the costs of basic services, the local government equitable share allocates a subsidy of R293 per poor household per month. This amount supports the provision of free basic amounts of electricity, water, sanitation and refuse removal to the 59 per cent of households with a monthly income below R2 300. The equitable share, which totals R147.6 billion over the MTEF, also provides funds for administration and community services in municipalities that are unable to fund these from their own revenues.

Infrastructure

Of the R104.6 billion allocated to municipal infrastructure grants over the MTEF period, 44.4 per cent is allocated to metropolitan municipalities and 32.1 per cent to the 70 most rural local municipalities and the district municipalities that provide services in these rural areas.

Improving audit outcomes and reducing corruption in municipalities

Audit findings

Municipalities that receive unqualified audits (with or without findings) generally have good financial management practices in place. In 2011/12, 117 municipalities were in this category (42 per cent), while 9 received unqualified without any findings (often referred to as “clean audits”). In the latest audit findings (2012/13), 122 municipalities were in the unqualified audit category (44 per cent) and 20 municipalities received unqualified audits without findings.

While the latest audit outcomes exhibit marginal improvement, they also underline the need for continued improvement in municipal financial management.

The Auditor-General has identified two factors common to those municipalities that have improved their audit outcomes. First, where political and administrative leadership work together to implement and monitor internal controls, good governance is achievable. Second, identifying the processes and systems that directly affect audit findings allows financial managers to design successful direct interventions.

Reducing corruption

Over the past year, some municipalities have taken additional steps to root out fraud, theft and corruption. Examples include the following:

- Buffalo City has improved its internal controls and fraud prevention techniques, and since December 2012 has dismissed eight officials.
- Johannesburg has developed a city-wide anti-corruption and anti-fraud strategy, leading to the arrest of 10 officials.
- eThekwini is conducting 125 internal investigations related to procurement fraud allegations, noncompliance with supply chain management regulations and financial misconduct by employees.
- Since January 2013, Mangaung Metropolitan Municipality has dismissed three employees for fraud.

While much has been achieved in the rollout of municipal infrastructure over the last decade, significant work remains to be done, both to eradicate backlogs in access to services, and to ensure that services are properly operated and maintained over the long term.

Review of existing grant structures is under way to improve performance

In some areas, there has been widespread waste and inefficiency, or slow service delivery. In certain cases, provision of grant financing may have weakened incentives to obtain other financing. A review of the effectiveness of existing infrastructure grant structures is under way to determine how the system can be improved. This collaborative initiative involves the Financial and Fiscal Commission, the South African Local Government Association and the National Treasury, and will draw on extensive consultation with municipalities and relevant national departments. Proposed changes to infrastructure grants flowing from the review could be implemented from 2015/16.

Reforms have been introduced to respond to the needs of different types of municipalities

This review will support the comprehensive reform of the municipal infrastructure conditional grant system. Some reforms have already been introduced to respond to the needs of different types of municipalities:

- Grants targeted at metropolitan and larger urban municipalities include the *urban settlements development grant*, *integrated city development grant*, *municipal human settlements capacity grant* and *public transport infrastructure grant.*
- Metropolitan and larger urban municipalities are expected to use a combination of grant funds and their own revenue to upgrade informal settlements. The *urban settlements development grant*, amounting to R32.2 billion over the MTEF period, is an integrated source of funding to upgrade urban informal settlements in the eight metropolitan municipalities. In addition to the funds made available through an indirect grant to provinces to provide for decent sanitation, conditions

have been added to the *municipal infrastructure grant* and the *urban settlements development grant* to ensure that recipient municipalities eradicate bucket toilets.

- The *neighbourhood development partnership grant* funds projects in townships where historically underserved communities can be connected to the wider city economy through transport corridors. Working with municipalities, the partnership has completed 179 projects, with 81 under construction. Examples include the Bridge City precinct in eThekwini, Bara Central, and the Mitchells Plain central business district and transport interchange. In future, the portion of the grant targeted at rural municipalities will focus on 23 township nodes.

Table 7.4 Infrastructure transfers to local government, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Outcome		Revised		Medium-term estimates	
R million				**estimate**			
Equitable share and related	**30 541**	**33 173**	**37 139**	**39 789**	**44 490**	**50 208**	**52 869**
General fuel levy sharing with metros	**7 542**	**8 573**	**9 040**	**9 613**	**10 190**	**10 659**	**11 224**
Direct conditional grants	**22 822**	**26 505**	**30 251**	**34 268**	**36 135**	**39 181**	**41 094**
Municipal infrastructure	9 704	11 443	13 879	14 355	14 684	15 098	15 767
Municipal water infrastructure	–	–	–	403	534	1 380	1 302
Urban settlements development	4 968	6 267	7 392	9 077	10 285	10 655	11 232
Integrated national electrification programme	1 033	1 097	1 151	1 635	1 105	2 056	2 165
Public transport infrastructure	3 700	4 612	4 884	4 669	4 968	5 098	5 104
Neighbourhood development partnership	832	738	578	598	591	600	632
Integrated city development	–	–	–	40	255	266	293
Rural roads asset management systems	10	35	37	52	75	98	103
Rural households infrastructure	–	–	–	107	48	51	125
Municipal disaster recovery	320	450	–	118	37	22	–
Municipal systems improvement	212	220	230	240	252	261	275
Local government financial management	365	385	403	425	449	470	495
Municipal human settlements capacity	–	–	–	–	300	300	300
Public transport network operations	–	–	–	881	903	1 043	1 362
Other direct grants	1 676	1 257	1 696	1 668	1 649	1 783	1 940
Total direct transfers	**60 905**	**68 251**	**76 430**	**83 670**	**90 815**	**100 047**	**105 187**
Indirect transfers	**2 939**	**2 770**	**4 956**	**5 697**	**7 726**	**9 467**	**10 221**
Integrated national electrification programme	1 720	1 165	1 879	2 141	2 948	3 680	3 875
Neighbourhood development partnership	50	50	80	55	58	55	52
Regional bulk infrastructure	851	1 260	2 523	3 261	3 987	4 222	4 624
Municipal water infrastructure	–	–	–	–	525	1 292	1 512
Rural households infrastructure	62	78	341	101	66	67	–
Other indirect grants	257	217	133	139	142	151	159

Differentiating support to urban and rural municipalities was instrumental in reducing rural electricity backlogs by 42 per cent and cutting rural water backlogs by 27 per cent between 2001 and 2011. Rural areas continue to face the most significant service-delivery backlogs, and financing arrangements acknowledging this will continue over the MTEF period.

Over 10 years rural electricity backlogs fell by 42 per cent and water backlogs by 27 per cent

The *municipal infrastructure grant*, which totals R45.5 billion over the three-year spending period and is the largest conditional grant to municipalities, has a formula that targets infrastructure backlogs in poor communities. The formula explicitly targets the 23 priority districts covering more rural municipalities. As a result 77 per cent of *municipal infrastructure grant* allocations in 2014/15 target rural municipalities.

Several other infrastructure grants to local government have allocation criteria that favour rural areas – such as the *municipal water infrastructure grant* (direct and indirect grant), the *integrated national electrification programme grant* (direct and indirect grant) and the *rural households infrastructure grant* (direct and indirect grant) and the *rural roads asset management systems grant* (direct grant). A further R934 million has been added to the indirect *regional bulk infrastructure grant* over the MTEF period to accelerate provision of bulk water services.

A range of infrastructure grants have allocation criteria that favour rural areas

Building capacity in local government

The 2014 Budget contributes to the NDP's vision of building a capable state at local government level through various capacity-building programmes that support rural municipalities (urban municipalities are discussed in the next section). Over the 2014 MTEF more than R3.9 billion is allocated for this purpose:

- R2.6 billion in *capacity-building conditional grants,* mainly allocated to rural municipalities.
- R857.5 million for the Municipal Infrastructure Support Agency, which provides training and technical assistance.
- R405.4 million for the Municipal Financial Management Improvement Programme.
- R25 million to build capacity in 13 rural municipalities that receive the indirect component of the *rural households infrastructure grant*.

To be effective, these resources need to be accompanied by political and administrative commitments to develop more capable institutions focused on service delivery, and to eliminate waste and corruption.

Coordinated planning in the urban environment

Since 1994, South Africa has experienced a wave of migration from the countryside to the cities. Urban areas are now home to just over 60 per cent of the population and account for nearly 80 per cent of GDP.

South Africa's cities face profound development challenges. Sprawling, highly polarised cities impose significant costs, limit opportunities for poor households to benefit from economic opportunities and public services, and retard community development. Well-planned urban development can boost economic activity, reduce the environmental consequences of sprawl and overcome inherited spatial distortions that marginalise poor communities. Over the next three years, national

Government and municipalities are working to accelerate a long-term shift in urban planning government and municipalities are working to accelerate this long-term shift in management of the urban landscape.

Cities fund more than 80 per cent of their spending from their own revenue. There are, however, large conditional grants available to cities for investments that contribute to transforming spatial dynamics and leveraging the growth opportunities that arise from more functional communities. The 2014 Budget supports these initiatives. While it will take decades to fully transform South Africa's cities, the coordinated planning required to do so is beginning over the next three years.

NDP recommends that responsibility for housing should shift to municipal level

To improve coordination of urban programmes and establish clearer lines of accountability, the NDP recommends that responsibility for housing should shift to municipal level, where human settlement planning takes place. Government has agreed to develop planning and implementation capacity in municipal government. To this end, a *municipal human settlements capacity grant* is introduced from 2014/15.

Investing to build productive, inclusive cities

The Cities Support Programme helps metropolitan municipalities to coordinate public investment in infrastructure, housing and transport to build more inclusive, productive and sustainable cities.

All metros are implementing major programmes to overcome dominant spatial patterns. Investment plans focus on defined areas. In Johannesburg, for example, "corridors of freedom" have been identified along major transport routes to link major commercial and residential nodes.

These corridors will be the focus of investments in bus rapid transit systems, funded through the *public transport infrastructure grant*. Transport investments will be complemented by direct investment in high-density residential housing stock, modified land use controls to enable higher-density private residential and business developments, and investments in bulk infrastructure. Community amenities such as libraries, police stations, clinics and other amenities are also part of the programme.

The Cities Support Programme will work with municipalities to maximise the opportunities arising from these investments. A project preparation facility to be introduced with the support of the Development Bank of Southern Africa will help cities build a pipeline of well-designed and catalytic projects.

A priority is to ensure that large, low-income communities on the urban edge are better connected to centres of economic and social activity through investment in transport and development corridors. This process will be speeded up as the urban housing and public transport functions are devolved to cities.

In 2013/14 government introduced the *integrated city development grant*. It provides a financial incentive for metropolitan municipalities to concentrate infrastructure funds to develop more compact urban environments. The grant receives an additional R356 million, bringing its total value to R814 million over the MTEF period.

To receive integrated city development grant, municipalities must submit built environment plans

From 2014/15, built environment performance plans will be a requirement for receiving the *integrated city development grant*. These performance plans support better coordination of investment and enhance the alignment of projects funded through various national grants. The built environment performance plans can help establish planning and funding certainty beyond municipal political cycles.

Conclusion

Over the past 20 years, government has overseen a large expansion of public health care, education, housing, and basic services such as water, electricity, sanitation and solid waste removal. Despite these achievements, much still needs to be done to eliminate poverty and reduce inequality. Weaknesses in capacity and performance are most pronounced in historically disadvantaged areas, where state intervention is most needed to improve people's quality of life.

Division of revenue for next three years supports NDP objectives

South Africa can realise the goals of the NDP by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. The division of revenue for the next three years promotes these objectives.

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