6

Division of revenue and spending by provinces and municipalities

In brief

- Allocations to provinces and municipalities grow at average annual rates of 7.3 per cent and 8.1 per cent respectively over the next three years.
- Provinces and municipalities are enhancing operational efficiency and looking at ways to raise additional own revenue as wages and basic service provision costs escalate.
- Growth in wage costs has been partially offset by a reduction in the number of provincial employees. Over the period ahead, filling of vacant posts will be subject to approval, and non-essential spending will be curtailed.
- Provinces will receive additional allocations to expand HIV/AIDS prevention and treatment, improve infrastructure spending and support early childhood development.
- Conditional grant rules have been changed to encourage local government to maintain existing infrastructure and improve planning.
- An amount of R409.3 million has been allocated in 2016/17 and 2017/18 for areas affected by the redrawing of municipal boundaries, which will reduce the total number of municipalities from 278 to 257.

Overview

Cost of public services growing faster than national government transfers

Over the next three years, the cost to provinces and municipalities of providing public services is expected to grow faster than transfers from national government. Slower growth in transfers is the result of a reprioritisation to fund new spending needs and return budget growth to a sustainable path. At the same time, wages and the cost of bulk services such as water and electricity are expected to grow faster than inflation. In response, provincial and municipal governments are strengthening efforts to work more efficiently, reduce non-core spending and increase funding from own revenue.

The division of revenue between national, provincial and local government takes into account the powers and functions assigned to each level of government, as well as their ability to raise revenue. Provincial governments are responsible for implementing nationally determined policies in education, health, social development, agriculture, roads and human settlements. Local governments are responsible for providing basic services such as water and sanitation, electricity reticulation, refuse removal, municipal transport and roads, and community services. They also provide free or subsidised basic services to poor households. Municipalities fund a significant portion of the costs of providing these services from user charges and property rates within their own tax base.

Division of revenue

R17.8 billion added in 2018/19, to be allocated to specific programmes in 2017 Budget

Table 6.1 summarises the division of revenue over the medium-term expenditure framework (MTEF). Of the funds available after providing for debt-service costs and the contingency reserve, 47.7 per cent is allocated to national government, 43.2 per cent to provincial government and 9.1 per cent to local government over the next three years. The division of revenue in Table 6.1 includes an amount of R17.8 billion provisionally allocated in 2018/19, but which will only be assigned to specific programmes during the 2017 Budget, subject to the approval of a spending proposal. Of this amount, R5.8 billion has indicatively been allocated to the provincial equitable share and R4.5 billion to local government conditional grants.

Table 6.1 Division of nationally raised revenue, 2012/13 – 2018/19

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Average annual MTEF growth
		Outcome		Revised estimate		Medium-term estimates		
Division of available funds								
National departments	**420.2**	**453.4**	**490.0**	**546.8**	**559.8**	**594.1**	**637.8**	**5.3%**
of which:								
Indirect transfers to provinces	*2.3*	*2.7*	*5.8*	*3.2*	*3.6*	*1.7*	*1.8*	*-17.6%*
Indirect transfers to local government	*5.0*	*5.9*	*8.9*	*10.5*	*7.8*	*7.4*	*7.7*	*-10.0%*
Provinces	**380.9**	**410.6**	**439.5**	**471.8**	**499.8**	**542.3**	**582.9**	**7.3%**
Equitable share[1]	310.7	336.5	359.9	386.5	410.7	441.8	474.9	7.1%
Conditional grants	70.2	74.1	79.6	85.3	89.1	100.5	108.1	8.2%
Local government	**76.2**	**82.6**	**87.7**	**99.7**	**104.9**	**113.3**	**125.8**	**8.1%**
Equitable share	37.1	39.0	41.6	50.5	52.6	57.0	61.7	6.9%
Conditional grants[1]	30.0	34.0	35.9	38.5	41.1	44.5	51.6	10.3%
General fuel levy sharing with metros	9.0	9.6	10.2	10.7	11.2	11.8	12.5	5.4%
Non-interest allocations	**877.4**	**946.6**	**1 017.2**	**1 118.2**	**1 164.6**	**1 249.8**	**1 346.5**	**6.4%**
Percentage increase	*7.9%*	*7.9%*	*7.5%*	*9.9%*	*4.2%*	*7.3%*	*7.7%*	
Debt-service costs	88.1	101.2	114.8	129.1	147.7	161.9	178.6	11.4%
Contingency reserve	–	–	–	–	6.0	10.0	15.0	
Main budget expenditure	**965.5**	**1 047.8**	**1 132.0**	**1 247.3**	**1 318.3**	**1 421.7**	**1 540.0**	**7.3%**
Percentage increase	*8.5%*	*8.5%*	*8.0%*	*10.2%*	*5.7%*	*7.8%*	*8.3%*	
Percentage shares								
National departments	*47.9%*	*47.9%*	*48.2%*	*48.9%*	*48.1%*	*47.5%*	*47.4%*	
Provinces	*43.4%*	*43.4%*	*43.2%*	*42.2%*	*42.9%*	*43.4%*	*43.3%*	
Local government	*8.7%*	*8.7%*	*8.6%*	*8.9%*	*9.0%*	*9.1%*	*9.3%*	

1. Includes unallocated amounts
Source: National Treasury

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 certain goals, and provinces and municipalities must meet specific criteria to receive grants and fulfil conditions when spending them.

Underspending has decreased across government

Underspending has decreased across national, provincial and local government. In 2014/15, national government expenditure amounted to R628.8 billion (excluding direct charges) out of a total adjusted appropriation of R639.2 billion. This represents underspending of 1.6 per cent. Provincial government underspent its adjusted budget of R460.7 billion for 2014/15 by R6.2 billion (1.3 per cent), compared with R6.3 billion (1.5 per cent) in the previous year. Municipalities spent R22.8 billion (91.9 per cent) of their infrastructure grants in 2014/15, up from 90.6 per cent in 2013/14.

Sharp increases in grant spending on health infrastructure and road maintenance

The proportion of conditional grant funding spent also continues to improve. In 2014/15, expenditure on the *health facility revitalisation grant* increased to 94.3 per cent from 85.3 per cent in 2012/13. Spending on the *provincial roads maintenance grant* rose to 98.4 per cent from 90.6 per cent over the same period. Provincial operating grants tend to perform more consistently and are spent better than infrastructure grants. Spending on both the *national school nutrition programme grant* and the *comprehensive HIV and Aids grant*, for example, exceeded 99 per cent in 2014/15. Local government infrastructure grants also improved their performance, with spending on the *municipal infrastructure grant* increasing from 85.2 per cent in 2012/13 to 92.2 per cent in 2014/15. Funds allocated to the *integrated national electrification programme grant* in 2014/15 were fully spent.

The *Explanatory Memorandum to the Division of Revenue* sets out the national, 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).

Provincial revenue and spending

R14.9 billion shifted from provincial equitable share to fund new priorities and support fiscal consolidation

The 2016 Budget projects medium-term allocations of R1.327 trillion to the provincial equitable share. This is R14.9 billion lower than the 2015 *Medium Term Budget Policy Statement* (MTBPS) estimate, with R3.3 billion reprioritised to fund emerging priorities and R11.6 billion trimmed to support fiscal consolidation. However, allocations are still higher (R5.4 billion higher in 2016/17 and R12.9 billion in 2017/18) than the indicative amounts projected in the 2015 Budget. This is because substantial amounts were added to the provincial equitable share in the 2015 MTBPS to help provinces with increased compensation costs flowing from the public-sector wage settlement.

How the provincial equitable share works

The provincial equitable share allocation for each province is determined by a formula that takes into account population growth, economic activity, poverty, and demand for services such as education and healthcare. Allocations to fast-growing provinces grow more quickly than allocations to provinces with more stable population numbers. Smaller provinces are also compensated for the fixed costs of maintaining provincial institutions. The equitable share formula is set out in Annexure W1.

Most provincial equitable share allocations grow in real terms over medium term

All provincial budgets will continue to grow in nominal terms over the MTEF period and most will grow in real terms. The slightly slower rate of growth in provincial transfers can be largely offset by improving efficiency, and reducing spending on non-core goods and services.

Table 6.2 Provincial equitable share, 2015/16 – 2018/19

R million	2015/16	2016/17 Medium-term estimates	2017/18	2018/19	Average annual MTEF growth
Eastern Cape	54 867	58 060	61 969	65 845	6.3%
Free State	21 996	22 995	24 591	26 135	5.9%
Gauteng	74 100	79 600	86 412	92 200	7.6%
KwaZulu-Natal	83 132	87 898	94 051	99 450	6.2%
Limpopo	45 866	48 709	52 087	55 176	6.4%
Mpumalanga	31 337	33 450	36 208	38 506	7.1%
Northern Cape	10 226	10 863	11 733	12 422	6.7%
North West	26 397	28 062	30 361	32 311	7.0%
Western Cape	38 580	41 062	44 418	47 008	6.8%
Total	**386 500**	**410 699**	**441 831**	**469 051**	6.7%

Source: National Treasury

Grant additions strengthen HIV/AIDS treatment, national healthcare pilots and road maintenance

Equitable share allocations are complemented by conditional grants that fund infrastructure and programmes such as the provision of free meals to learners. Changes to conditional grants in the period ahead include:

- Expanding the scope of the *comprehensive HIV and Aids grant* to cover the treatment of tuberculosis.
- Expanding the scope of the *national health insurance indirect grant* to fund clinic upgrades in national health insurance pilot districts.
- Introducing incentives in the *provincial roads maintenance grant* to reward provinces that implement best practices in planning and completing road maintenance.
- Merging the indirect *school infrastructure backlogs grant* into the direct *education infrastructure grant* from 2017/18.
- Introducing a new conditional grant in 2017/18 to expand and improve early childhood development services.

Provincial conditional grants grow at average annual rate of 8.2 per cent over medium term

Table 6.3 summarises proposed conditional grants to provinces. Over the medium term, a total of R297.7 billion has been allocated to these grants, which national departments administer and transfer to their provincial counterparts. The allocation is R3.3 billion less than indicated in the 2015 MTBPS due to reprioritisation. However, conditional grants to provinces still grow at an average annual rate of 8.2 per cent over the medium term.

Provinces need to identify ways to boost income through own revenues

Provinces raise about 3 per cent of their budgets from own revenue – mainly from vehicle and gambling licences, and service fees. Between 2010/11 and 2014/15, own revenue grew by an annual average of 13.4 per cent as provinces sought ways to boost income. Provincial governments will continue to explore ways to maximise their own revenues given the constrained fiscal environment.

Some provinces that have accumulated reserve funds through good fiscal management in recent years intend to draw down on these reserves to offset reduced transfers from the fiscus.

Table 6.3 Conditional grants to provinces, 2015/16 – 2018/19

R million	2015/16	2016/17	2017/18	2018/19	MTEF total
Direct conditional grants					
Comprehensive agricultural support programme	1 640	1 642	1 739	1 834	5 214
Ilima/Letsema projects	467	491	522	552	1 566
Community library services	1 274	1 357	1 441	1 522	4 320
Education infrastructure	9 354	9 614	12 780	13 512	35 906
Maths, science and technology	317	362	385	407	1 155
National school nutrition programme	5 685	6 006	6 306	6 672	18 984
Comprehensive HIV and AIDS and tuberculosis	13 671	15 291	17 660	20 032	52 983
Health facility revitalisation	5 417	5 273	5 770	6 036	17 079
Health professions training and development	2 375	2 477	2 632	2 784	7 893
National tertiary services	10 381	10 847	11 526	12 195	34 568
Human settlements development	18 303	18 284	21 060	22 282	61 626
Mass participation and sport development	533	556	586	618	1 760
Provincial roads maintenance	9 807	10 203	10 754	11 536	32 492
Public transport operations	4 939	5 400	5 723	5 990	17 113
Other direct grants	1 104	1 344	1 629	2 088	5 061
Total direct conditional grants	**85 268**	**89 146**	**100 513**	**108 061**	**297 720**
Indirect transfers	**3 150**	**3 636**	**1 663**	**1 765**	**7 064**
School infrastructure backlogs	2 047	2 375	–	–	2 375
National health insurance indirect	1 103	1 261	1 663	1 765	4 689

Source: National Treasury

Managing spending pressures

Rising compensation costs continue to stretch provincial finances. Over the medium term, the percentage of provincial budgets allocated to salaries is expected to increase from 59.7 per cent to 61 per cent, mainly for the salaries of teachers and healthcare workers. Compensation as a share of provincial budgets ranges from a low of 53 per cent in the Western Cape to a high of 72 per cent in Limpopo. Over the medium term, compensation budgets are expected to grow at 1 per cent above inflation as a result of the wage settlement reached in 2015.

Share of provincial budgets allocated to salaries increases to 61 per cent over medium term

To manage compensation pressures, provinces have been reducing the number of staff employed, mostly in non-critical positions. The total number of staff in provinces decreased from a high of 920 826 in 2012 to just under 900 000 at the end of 2015. Further reductions will be required, particularly in the outer years of the MTEF period.

Several provinces have centralised the authorisation needed to appoint new staff so that they can exercise greater control over the filling of vacancies. The most effective staff reductions will be those that improve the efficiency of provincial departments, align organisational structures more closely with service delivery objectives, and reduce administrative staff that exceed requirements. Such reductions are unlikely to affect service delivery. Some provinces have begun offering early retirement packages.

Provinces are controlling filling of vacancies to improve organisational structure

Rising compensation budgets reduce the proportion of provincial budgets spent on other categories. Spending on capital assets as a share of aggregate provincial expenditure is expected to decline from 7.1 per cent

Share of provincial budgets spent on categories other than wages is declining in 2015/16 to 6.8 per cent in 2018/19. Over the same period, the share spent on transfers decreases from 14 per cent to 13 per cent. The share spent on goods and services has decreased marginally from 19.3 per cent of the total budget in 2012/13 to 19.1 per cent in 2015/16, and is expected to fall below 19 per cent over the MTEF period.

As part of cost-saving measures, provinces plan to reduce spending on items such as catering, communications, venues, facilities and consultants. Details of the changes in each province will be announced when their budgets are tabled in the provincial legislatures. Plans could include closing down underperforming programmes and reviewing supply chain management processes. Provinces are working to minimise reductions to capital budgets to avoid any adverse effects on service delivery.

Improving infrastructure spending

Government is taking steps to get better value for money from spending on infrastructure.

New procurement standards issued in November 2015 give officials greater flexibility to negotiate lower prices. Provinces have been provided with prototype designs and benchmark costs for different sizes and types of schools, reducing the scope for architects and engineers to overdesign such facilities. Through greater use of management contracts, where one contractor is hired to oversee all aspects of a project, government is reducing exposure to the risk of overruns or delays. To minimise corruption, the infrastructure delivery management system includes control points at which approvals must be granted and checked.

Government has successfully used these measures to control the costs of constructing new university campuses in Kimberley and Nelspruit. In both cases, the Department of Higher Education and Training set cost norms per square metre for the types of facilities being built. Where designs exceeded these norms, contractors had to amend their plans. As a result, the new buildings were completed within budget, with most facilities ready for operation at the start of the 2016 academic year.

Work under way to rationalise provincial entities with duplicate functions

Provinces have agreed to review spending on public entities, particularly those that provide development finance. Many of these agencies duplicate functions and services provided at national level. To reduce administration costs, provincial treasuries are also working to consolidate entities performing similar functions; those not performing core functions will be closed. More work is needed to wean provincial entities off their reliance on transfers, and improve the governance and cost effectiveness of their operations. Where necessary, provincial legislation should be enacted to merge or close overlapping or non-core entities.

Municipal revenue and spending

Municipalities need to improve revenue collection and efficiency

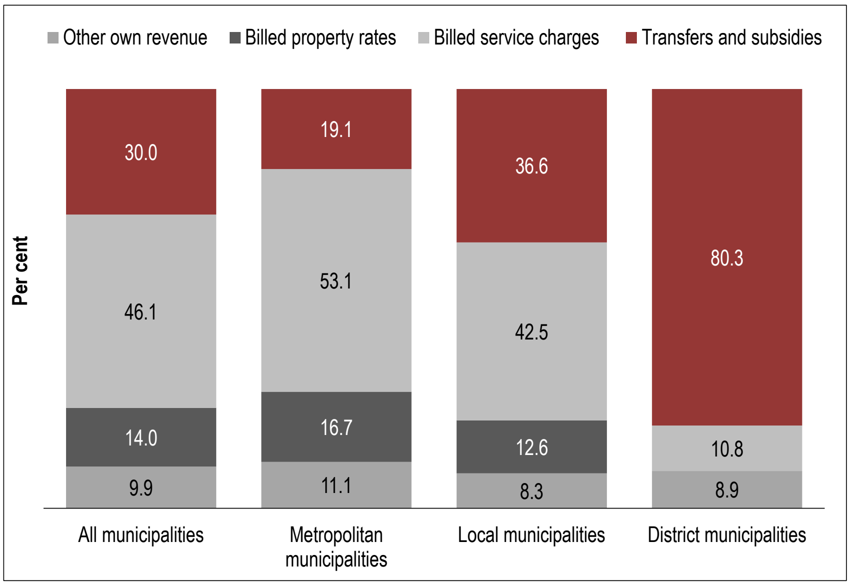
Local government also faces tough fiscal choices in the period ahead as growth in transfers slows and the costs of providing services increase. Municipalities can offset these trends by improving their own revenue collection, increasing efficiency and obtaining greater value for the money they spend.

Most municipal revenue is derived from user charges, rates and taxes. Poor and rural municipalities, which have much lower tax bases than big cities, rely more heavily on national transfers (see Figure 6.1). Metropolitan municipalities derive only 19 per cent of their revenue from transfers, while district municipalities, which provide services to rural areas, derive 80 per cent of their funding from transfers. Recent increases in the costs of bulk electricity and water have reduced the surpluses municipalities generate from these services.

The local government equitable share formula ensures that poor and rural municipalities receive higher per capita transfers to fund free basic services to all poor households. The formula also provides for institutional costs and community services in municipalities with weak revenue bases.

Poor and rural municipalities receive higher per capita transfers to fund free basic services

Figure 6.1 Budgeted sources of municipal revenue, 2015/16



Source: National Treasury

Transfers to local government

Government's reprioritisation of expenditure has changed local government equitable share allocations. The 2016 Budget reduces the baseline allocation by R300 million, or 0.6 per cent, in 2016/17. In 2017/18 and 2018/19, R1.5 billion and R3 billion are added respectively to offset the rising costs of basic services. These amounts revise downwards the 2015 MTBPS medium-term projection of an additional R6 billion.

Local government equitable share reduced by 0.6 per cent in 2016/17

During 2016/17, municipalities will receive a subsidy of R335 per household per month to provide free basic services to 9.2 million poor households – a figure based on the 2011 Census and adjusted for annual population growth. This figure is significantly higher than the 5.3 million households that municipalities report as having received such services (see Statistics South Africa's 2013 *Non-Financial Census of Municipalities)*. This shortfall must be addressed. Municipalities need to ensure that funds for free basic services are spent as intended.

Municipalities are not spending free basic services subsidy entirely as intended

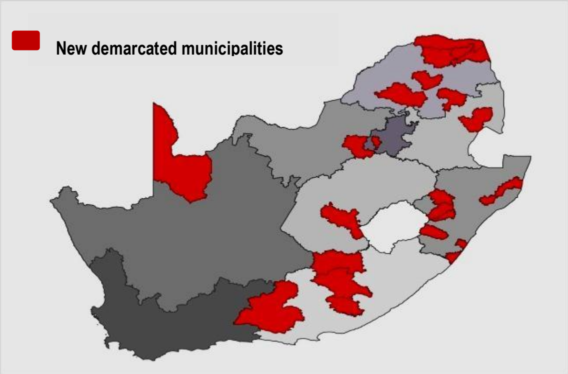
As a result of the 8 per cent annual tariff increase approved by the National Energy Regulator of South Africa for the period up to 2017/18, the cost of providing free basic electricity is rising. Equitable share allocations compensate municipalities for this, but not for any additional increases in the bulk price of electricity approved after the Budget is tabled.

Direct transfers to local government for infrastructure have been reduced by 3.5 per cent over the MTEF period as part of the reprioritisation process. The effects of this reduction can be offset by cutting underexpenditure, which averaged 9 per cent in 2014/15.

Reductions can be offset by reducing underexpenditure, which averaged 9 per cent in 2014/15

New municipal boundaries

The number of municipalities will be reduced from 278 to 257 and their boundaries redrawn in 2016. This will be the most significant boundary change since 2000, with the goal of making affected municipalities more sustainable. A total of R409.3 million has been allocated to the *municipal demarcation transition grant* in 2016/17 and 2017/18 to fund the costs of these changes in affected municipalities. The map below highlights in red the new municipalities that will be created through the merger of existing municipalities.



The mergers are expected to reduce administration costs and free resources for service delivery. Boundary changes will come into effect on the date of the 2016 local government elections.

Improving infrastructure investment in municipalities

Growth in municipal capital spending likely to slow in period ahead

Municipal capital spending has grown at an average annual rate of 9 per cent between 2010/11 and 2014/15, reaching a total value of R53.2 billion. This growth is the result of government's sustained investment through infrastructure grants and cities' increasing own revenues, particularly in metropolitan municipalities. Growth in municipal capital spending is likely to slow in the period ahead.

Following an intergovernmental review of the local government infrastructure grant system, significant changes are being made to the way these grants are structured. The changes include:

- Allowing municipalities to use conditional grant funds to repair and refurbish existing infrastructure. This will improve services and secure future revenue streams.
- Reducing the number of water and sanitation grants from four to two: the *regional bulk infrastructure grant* to fund large bulk-water and sanitation projects, and the *water services infrastructure grant* to fund construction and refurbishment of reticulation schemes and on-site services in rural municipalities. Over the medium term, just over R11 billion has been shifted from indirect to direct allocations to allow municipalities with capacity to implement the projects themselves.
- Amending the *municipal infrastructure grant* to require secondary cities to plan how infrastructure investments will contribute to long-term urban development that breaks down apartheid spatial patterns.
- A new formula to allocate the R6 billion per year set aside to upgrade public transport in 13 cities. The previous system incentivised cities to plan overly expensive systems in the hope of receiving more funding. The new formula provides greater certainty about the long-term support government will provide, and allows cities to plan affordable and sustainable infrastructure upgrades.

Other initiatives include acquiring infrastructure-related goods and services through transversal contracts.

Improving municipal efficiency

Several new initiatives have been introduced to strengthen municipal capacity. The *municipal systems improvement grant* has been reconfigured as an indirect grant from 2016/17 to help poorly performing municipalities with revenue collection, performance management and record keeping. Regional management support will also be provided to groups of municipalities facing common institutional weaknesses.

Municipalities can improve billing and revenue, reduce water and electricity losses, and enhance maintenance

Municipalities can take the following steps to enhance efficiency:

- Improve billing and revenue collection. Many municipalities fail to collect all the money owed to them. Valuation rolls on which property rates are based need to be accurate and up to date, tariffs should cover the full costs of services provided and money owed needs to be collected. Government has put in place measures to ensure payment of monies owed by national and provincial departments.
- Reduce water and electricity losses. Ageing infrastructure and poor maintenance have led to leakages in municipal reticulation systems, compounded by illegal connections. The eight metropolitan cities forfeit an estimated R6.5 billion annually through technical losses in water and electricity. Reducing metropolitan municipalities’ losses by just 4.6 per cent would save enough to make up for the R300 million reduction in the local government equitable share in 2016/17.
- Invest in repairs and maintenance. Prioritising maintenance reduces the long-term costs of refurbishing infrastructure and ensures a higher level of functionality, which means better services and more revenue from the higher volumes of services that can be delivered. Municipalities should spend between 6 per cent and 8 per cent of their operating budgets on repairs and maintenance; most spend less than 3 per cent.
- Ensure alignment of budgets, staffing and service delivery functions. Municipalities with large numbers of staff and significant budgets allocated to non-core functions should review and reduce these.

The National Treasury is piloting a standard chart of accounts in selected areas for introduction in all municipalities in 2017/18. This will improve the transparency and comparability of local government finances, and strengthen monitoring and oversight. To promote greater transparency and accountability, the National Treasury will also work with information technology developers to make municipal budget data available to a wide audience through digital media.

Municipal standard chart of accounts, in pilot phase, will promote transparency and accountability

Table 6.4 Transfers to local government, 2012/13 – 2018/19

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Outcome		Revised		Medium-term estimates	
R million				estimate			
Equitable share and related	**37 139**	**38 964**	**41 592**	**50 507**	**52 569**	**57 012**	**61 732**
General fuel levy sharing with metros	**9 040**	**9 613**	**10 190**	**10 659**	**11 224**	**11 785**	**12 469**
Direct conditional grants	**30 021**	**34 018**	**35 874**	**38 485**	**41 132**	**44 543**	**47 111**
Municipal infrastructure	13 879	14 224	14 745	14 956	14 914	15 991	16 894
Water services infrastructure	562	1 129	1 051	2 255	2 845	3 730	3 959
Urban settlements development	7 392	9 077	10 285	10 554	10 839	11 472	12 052
Integrated national electrification programme	1 151	1 635	1 105	1 980	1 946	2 087	2 204
Public transport network infrastructure	4 884	5 550	5 871	5 953	5 593	6 360	6 793
Neighbourhood development partnership	578	586	590	607	624	663	702
Local government financial management	403	425	449	452	465	502	531
Regional bulk infrastructure	–	–	–	–	1 850	1 865	2 060
Municipal demarcation transition	–	–	–	39	297	112	53
Other direct grants	1 171	1 392	1 778	1 688	1 758	1 760	1 862
Total direct transfers	**76 200**	**82 595**	**87 656**	**99 650**	**104 925**	**113 340**	**121 311**
Indirect transfers	**5 050**	**5 945**	**8 895**	**10 525**	**7 773**	**7 401**	**7 679**
Integrated national electrification programme	1 879	2 141	2 948	3 613	3 526	3 876	3 995
Neighbourhood development partnership	80	55	58	26	22	28	29
Regional bulk infrastructure	2 523	3 261	4 005	4 858	3 479	2 806	2 931
Water services infrastructure	337	247	732	802	312	587	608
Municipal systems improvement	230	240	252	251	84	103	115
Bucket eradication	–	–	899	975	350	–	–

Source: National Treasury

Shaping urban development to support growth

Government continues to work with metropolitan municipalities to increase their contribution to inclusive economic growth, with expanded participation from the private sector. In August 2015, government hosted an Urban Investment Partnership Conference at which metropolitan municipalities' capital programmes were introduced to investors. They are now working to develop long-term borrowing strategies that can attract further private investment. All metros have developed plans that align public investment in strategic transit-oriented "integration zones" in cities. The *neighbourhood development partnership grant* provides catalytic funding and technical assistance to 65 projects to upgrade urban hubs located in townships. Examples include:

- The Tembisa Civic Hub in Ekurhuleni, which serves more than 700 000 people. The grant is funding R96 million in upgrades to provide safe and convenient pedestrian access. Government plans to invest about R6.5 billion in this area, with the potential to draw in R8 billion of private investment in the form of housing units, community facilities, and retail, office and commercial space.
- The emerging hub around Mabopane Station is the gateway to Tshwane's northern townships. More than 150 000 passengers use the station each day. The grant is funding R200 million in infrastructure upgrades to catalyse investment in housing units, retail offices and industrial space. Total public investment required, excluding housing, is about R2.2 billion, with a further R2.9 billion expected from the private sector.

Summary

Given the weak economic outlook and constrained resources, the actions of provinces and municipalities to improve efficiency and increase their own revenue streams will support fiscal sustainability, while protecting spending on basic services and social and economic infrastructure.