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Division of revenue and medium-term expenditure estimates

- The division of revenue reflects a strong bias towards local government to support universal access to basic services and built environment initiatives. In addition, significant increases are recommended for provincial governments, mainly for specific programmes in education, health, welfare services, agriculture and housing.
- Collectively, local and provincial government receive R48.6 billion or just under 60 per cent of additional resources. National government receives R32.7 billion of additional resources for initiatives that will raise productivity and employment, fight crime and improve service delivery.
- Including the additional R81.4 billion, total non-interest expenditure rises by 6.4 per cent a year in real terms, focusing on infrastructure delivery and improving the reach and quality of public services, particularly in poor communities.

■ Division of revenue overview

The proposed 2008 medium-term expenditure framework (MTEF) builds on the momentum created by rising government spending in recent budgets.

Further acceleration in spending and delivery of priority social programmes

Baseline allocations to national departments are revised upwards by R7.0 billion in 2008/09, R9.3 billion in 2009/10 and R16.4 billion in 2010/11, with additions focusing on:

- Raising the productive capacity of the economy through investing in infrastructure and supporting industrial development

- Fighting crime through higher investment in communications and network infrastructure, forensic capacity and more prison capacity
- Protecting the real value of social grants from higher inflation and rising food prices
- Improving administrative services, including support to the Department of Home Affairs.

Provincial baseline allocations are increased by R36.1 billion over the next three years to reinforce interventions in education, health and social development with the aim of extending the reach and quality of these services, especially for poor communities.

Support for expanded access to potable water, sanitation and electricity

Additional allocations to local government baselines of R12.6 billion are proposed over the MTEF to support expanded community access to potable water, sanitation and electricity. Of this amount, R5.8 billion will be added to the local government equitable share to help municipalities meet the costs of providing free basic services to poor households. The balance is earmarked for municipal infrastructure and programmes to boost planning, budgeting and management capacity in local government.

Table 6.1 shows the division of revenue over the MTEF.

Table 6.1 Medium-term expenditure framework and the division of revenue, 2007/08 – 2010/11

R million	2007/08 Revised	2008/09	2009/10	2010/11	2008 MTEF	Growth
Medium-term estimates						
National	246 331	269 011	295 389	316 683		8.7%
Provincial	205 537	235 110	264 069	288 160		11.9%
Equitable share	172 862	197 688	222 589	242 100		11.9%
Conditional grants	32 676	37 422	41 480	46 060		12.1%
Local	37 569	40 538	47 108	54 970		13.5%
Equitable share	20 676	24 711	29 936	35 565		19.8%
Conditional grants	16 893	15 828	17 172	19 406		4.7%
Total	489 437	544 659	606 566	659 813		10.5%
Percentage shares						
<i>National</i>	50.3%	49.4%	48.7%	48.0%		
<i>Provincial</i>	42.0%	43.2%	43.5%	43.7%		
<i>Local</i>	7.7%	7.4%	7.8%	8.3%		
Changes to baseline						
National	5 450	7 019	9 279	16 415	32 713	
Provincial	2 772	5 814	9 625	20 659	36 098	
Equitable share	1 590	4 214	6 805	13 369	24 388	
Conditional grants	1 182	1 600	2 820	7 290	11 710	
Local	3 257	1 570	2 280	8 700	12 550	
Equitable share	—	936	492	4 354	5 782	
Conditional grants	3 257	634	1 788	4 346	6 768	
Total	11 479	14 403	21 184	45 774	81 361	

Funding provincial government

Of the R36.1 billion added to the provincial share over the next three years, R24.4 billion is proposed for the provincial equitable share and

R11.7 billion for conditional grants. These additions result in transfers to provinces growing by 11.9 per cent per year, from R205.5 billion in 2007/08 to R288.2 billion in 2010/11.

Provincial equitable share

The provincial equitable share is budgeted to grow by 11.9 per cent annually from a revised R172.9 billion in 2007/08 to R242.1 billion in 2010/11. Robust growth in these allocations provides for the strengthening of social services programmes, especially those likely to have a high impact on human development and the quality of life.

Programmes that have a greater impact on human development and quality of life to be strengthened

In addition to the R8.0 billion added to education budgets and R4.2 billion added to health budgets over the 2007 MTEF, a further R11.7 billion is proposed to fund the implementation of the recently concluded public sector salary agreement, and to finalise an occupation-specific dispensation for educators and social workers. An agreement on a separate salary scale for nurses was signed in September 2007.

In education, government intends to allocate increased resources through provincial budgets to cater for the scaling up of grade R, including training more practitioners. Over the next three years the education sector is also going to devote resources to making public ordinary schools more inclusive.

Increased resources for grade R and learners with disabilities

In particular, facilities will be modified to make them more accessible to learners with disabilities. For learners with special needs who cannot be accommodated in public schools, new facilities will be built where needed. To implement the new curriculum statement, funds are provided to assist provinces to procure textbooks for all learners in grades 10, 11 and 12. Government is exploring innovative approaches to procuring these materials in a more cost-effective way.

A portion of the additional equitable share allocation aims to ensure that social welfare services are accelerated to meet the growing welfare needs of communities. The focus over the medium term is on bolstering early childhood development, catering for those aged 0-4 years (in collaboration with the education sector), expanding secure care services to children in conflict with the law, and strengthening access to home- and community-based care.

A focus on early childhood development

The equitable share also provides for investment in provincial economic sectors (roads, agriculture, economic affairs and tourism) to boost economic development, including programmes that contribute to rural development. Furthermore, programmes falling under the umbrella of the expanded public works programme will be accelerated.

Boosting provincial economic development and expanded public works

In health, the equitable share provides resources to tackle the challenge of multidrug-resistant tuberculosis (TB) and extreme drug-resistant TB, and for a general increase in health spending.

A battle plan for multidrug-resistant TB and extreme drug-resistant TB

A major cause of mortality and morbidity in its own right, TB is also the most important opportunistic infection arising from HIV and Aids. The MTEF will make provision for a scaled-up response to multidrug-resistant TB and extreme drug-resistant TB, with improved systems of detection and surveillance, and development of specialised inpatient treatment hospitals in all provinces. Facilities will be provided to isolate and treat these patients for a period of six months in hospital, with 18 months of follow-up treatment, including regular laboratory testing.

Table 6.2 Provincial equitable share allocations, 2007/08 – 2010/11

R million	2007/08 Revised	2008/09	2009/10 Medium-term estimates	2010/11
Eastern Cape	27 381	31 094	34 841	37 705
Free State	10 835	12 301	13 738	14 820
Gauteng	28 464	32 895	37 408	41 086
KwaZulu-Natal	37 425	42 849	48 329	52 651
Limpopo	22 498	25 696	28 836	31 255
Mpumalanga	14 253	16 285	18 300	19 862
Northern Cape	4 638	5 293	5 945	6 449
North West	12 087	13 696	15 284	16 474
Western Cape	15 282	17 579	19 909	21 798
Total	172 862	197 688	222 589	242 100

Table 6.2 shows the proposed equitable share allocations to each province over the MTEF. The calculation of the equitable share is determined by an objective redistributive formula published annually in the *Budget Review*. Revisions to the formula this year take into account the results of the 2007 Community Survey, with the adjustments phased in over three years.

Conditional grants to provinces

About half of all additional conditional allocations are for infrastructure grants

Conditional grant spending is expected to grow from a revised R32.7 billion in 2007/08 to R46.1 billion in 2010/11. About R6.5 billion or 56 per cent of additional conditional allocations are proposed for infrastructure-related grants.

School infrastructure report card

Findings released by the Department of Education in September 2007 highlight both the progress and challenges in providing school infrastructure. The figures show that:

- The number of overcrowded schools has fallen from 51 per cent in 1996 to 24 per cent in 2006, leaving nearly a quarter of schools with more than 45 learners per classroom.
- The number of schools without electricity decreased by 9 539 between 1996 and 2006, leaving 4 297 schools without electricity.
- The number of schools without water has decreased by 5 671 between 1996 and 2006, leaving 3 152 schools without water.
- The number of schools without toilets has decreased by 1 733 between 1996 and 2006, leaving 1 532 schools without toilets.
- 17 065 schools (68 per cent) have no computers.

The MTEF will provide an additional R2.7 billion to address these infrastructure needs, bringing education capital spending to a total of R17 billion over the next three years.

The *infrastructure grant to provinces* is revised upwards by R2.7 billion to address school infrastructure needs, including replacing unsafe and inappropriate school structures. Job creation in communities is an expected spin-off. Government plans to spend over R17.8 billion to build schools over the next three years.

The *national school nutrition programme* is allocated a further R1.5 billion over the MTEF to expand the programme in the primary school phase by extending coverage to more learners, improving the quality of meals and providing meals on more school days.

National school nutrition programme is enhanced

An additional R1.6 billion is recommended for the *hospital revitalisation programme* to assist provinces to equip and modernise their hospital facilities. Government plans to spend R9.2 billion on this programme over the next three years.

Hospital revitalisation programme receives additional R1.6 billion

Table 6.3 shows the revisions to provincial conditional grant allocations.

Table 6.3 Revision to provincial conditional grant allocations, 2007/08 – 2010/11

	2007/08	2008/09	2009/10	2010/11	2008 MTEF Total revisions
R million					
Agriculture	300	100	150	250	500
Agricultural disaster management grant	300	–	–	–	–
Comprehensive agriculture support programme grant	–	100	150	250	500
Education	111	300	400	800	1 500
Further education and training college sector recapitalisation grant	36	–	–	–	–
HIV and Aids (life skills education) grant	9	–	–	–	–
National school nutrition programme grant	66	300	400	800	1 500
Health	416	800	1 270	2 740	4 810
Comprehensive HIV and Aids grant	61	350	600	1 150	2 100
Forensic pathology services grant	121	–	70	110	180
Hospital revitalisation grant	234	300	400	900	1 600
National tertiary services grant	–	150	200	580	930
Housing	105	–	200	2 000	2 200
Integrated housing and human settlement development grant	105	–	200	2 000	2 200
National Treasury	250	400	800	1 500	2 700
Infrastructure grant to provinces	–	400	800	1 500	2 700
Transitional grant: North West	250	–	–	–	–
Total	1 182	1 600	2 820	7 290	11 710

A further R2.1 billion is added to the *comprehensive HIV and Aids grant*, resulting in planned spending of R9.8 billion on the programme over the MTEF period.

Further allocations for comprehensive HIV and Aids programme

The *national tertiary service grant* is allocated an additional R930 million to increase spending on tertiary hospitals and, more specifically, to fund diagnostic radiology, telemedicine and oncology.

The *integrated housing and human settlements grant*, which finances government's flagship housing subsidy programme, is allocated an additional R2.2 billion to speed up housing delivery. Government plans to spend R35.8 billion on this programme over the medium term.

A boost for agricultural support services, with a focus on emerging farmers

To expand the provision of agriculture support services, particularly extension and advisory services to emerging farmers, R500 million is added to the *comprehensive agricultural support programme*.

Table 6.4 shows conditional grants to provinces over the MTEF.

Table 6.4 Conditional grants to provinces, 2007/08 – 2010/11

R million	2007/08 Revised	2008/09	2009/10	2010/11
		Medium-term estimates		
Agriculture	762	584	680	812
Agriculture disaster management grant	300	–	–	–
Comprehensive agriculture support programme grant	415	535	628	757
Land care programme grant: poverty relief and infrastructure development	47	49	51	55
Arts and Culture	180	338	466	494
Community library services grant	180	338	466	494
Education	2 017	2 501	1 901	2 418
Further education and training college sector recapitalisation grant	631	795	–	–
HIV and Aids (life skills education) grant	166	168	177	188
National school nutrition programme grant	1 219	1 538	1 724	2 230
Health	11 737	13 343	14 996	17 289
Comprehensive HIV and Aids grant	2 006	2 585	3 276	3 987
Forensic pathology services grant	672	467	492	557
Health professions training and development grant	1 596	1 676	1 760	1 865
Hospital revitalisation grant	2 141	2 583	2 982	3 637
National tertiary services grant	5 321	6 032	6 486	7 244
Housing	8 343	9 853	11 731	14 223
Integrated housing and human settlement development grant	8 343	9 853	11 731	14 223
National Treasury	6 414	7 247	8 797	10 080
Infrastructure grant to provinces	6 164	7 247	8 797	10 080
Transitional grant: North West	250	–	–	–
Sport and Recreation South Africa	194	290	402	426
Mass sport and recreation participation	194	290	402	426
Transport	3 029	3 266	2 507	318
Gautrain rapid rail link	3 029	3 266	2 507	318
Total	32 676	37 422	41 480	46 060

Funding local government

Policy priorities and fiscal framework

Local government has had considerable success in expanding access to basic services to the poor. The recently released Community Survey shows that by February 2007:

Considerable success in provision of municipal services to the poor

- 89 per cent of households had access to water compared to 62 per cent in 1994
- 89 per cent of households had access to sanitation compared to 50 per cent in 1994
- 80 per cent of households had access to electricity compared to 51 per cent in 1995.

Through the *municipal infrastructure grant*, 610 293 household connections have been made for water and 324 071 for sanitation since 2004. Through the *integrated national electrification programme*, 550 247 households have been connected to the national electricity grid since 2004.

An additional R12.6 billion is allocated to municipalities to expand the provision of free basic services and to enhance the country's readiness for the 2010 FIFA World Cup. Of this amount:

Municipalities receive a further R12.6 billion to expand free basic services and prepare for 2010

- R5.8 billion is allocated to the local government equitable share for the rollout of free basic services and to step up institutional support for weaker municipalities in poorer areas.
- R4.1 billion is earmarked for municipal infrastructure and programmes to boost planning, budgeting and management capacity in local government.
- R2.0 billion is proposed for the *public transport infrastructure and systems grant* to finance an integrated public transport network in large municipalities, including 2010 FIFA World Cup host cities.
- R684 million is allocated for a *World Cup host cities operating grant* to provide the relevant municipalities with funding needed to ensure their readiness for the 2010 FIFA World Cup.

The 2008 MTEF seeks to assist poorer municipalities by allocating them a proportionally larger share of the local government equitable share and the *municipal infrastructure grant*.

Funding of poorer, smaller municipalities to increase

Transfers to local government

The additional R12.6 billion allocated to local government over the next three years results in its share of nationally raised revenue growing from a revised R38.2 billion in 2007/08 to R57.6 billion in 2010/11. This includes R9.0 billion in 2008/09, R10.1 billion in 2009/10 and R10.7 billion in 2010/11 in compensation for Regional Services Council (RSC) levies until a suitable replacement is announced.

Table 6.5 Revision to local government allocations, 2007/08 – 2010/11

R million	2007/08 Revised	2008/09	2009/10 Medium-term estimates	2010/11
Total local government allocation	38 183	43 020	50 072	57 583
Equitable share and related ¹	21 226	25 311	30 398	36 209
Infrastructure ²	16 208	17 279	19 174	20 797
Capacity building and restructuring	749	430	500	577
Changes to baseline				
Equitable share and related	–	936	492	4 354
Infrastructure	3 257	604	1 688	4 196
Capacity building and restructuring	–	30	100	150
Total	3 257	1 570	2 280	8 700

1. Includes water services operating subsidy grant.

2. Includes indirect transfers to municipalities.

Local government equitable share grows 12.3 per cent in real terms per year

The local government equitable share continues to be an integral funding instrument to supplement municipal own revenues for the provision of free basic services to poor households and to fund institutional capacity. Excluding the replacement grant for RSC levies, the local government equitable share is budgeted to grow 12.3 per cent a year in real terms from R12.6 billion in 2007/08 to R20.5 billion in 2010/11.

National transfers for municipal infrastructure investment amount to R57.3 billion over the next three years

Infrastructure transfers to local government amount to R57.3 billion over the next three years. This includes:

- R30.7 billion for the rollout of basic infrastructure and to provide for a reasonable minimum allocation for every municipality under the *municipal infrastructure grant*.
- R6.5 billion for the electrification of poor households.
- R13.8 billion to enable the host cities to meet the challenges of the 2010 FIFA World Cup – R3.8 billion for stadium refurbishment and construction, and R10 billion for the development of public transport infrastructure and systems.
- R2.5 billion for the neighbourhood development partnership grant.
- R1.8 billion for bulk water infrastructure to enable municipalities to connect more households to water and sanitation systems.
- R800 million to alleviate backlogs in electrification, water and sanitation at schools and clinics.
- R1.2 billion for the water services operating subsidy.

The *capacity-building and restructuring grant* helps municipalities to develop planning, budgeting, financial management and technical skills. The *financial management grant* and the *municipal systems improvement grant* receive total funding of R1.5 billion.