

Division of revenue and medium-term expenditure estimates

The 2006 Medium Term Expenditure Framework (MTEF) provides for strong real growth of expenditure by national, provincial and local government, supporting the objectives of economic growth, broad-based empowerment and social development. The proposed division of revenue takes into account the policy considerations and allocations for priority programmes set out in Chapter 6, and the service delivery responsibilities and fiscal capacities of national departments, provinces and municipalities.

Transfers from national revenue to provinces will increase by 12,1 per cent a year, from R154,5 billion in 2005/06 to R217,5 billion in 2008/09. Increased allocations for provinces provide for improvements in education, health care and social welfare services, and continued growth in infrastructure investment and maintenance spending.

Allocations for national department functions rise from R196,4 billion in 2005/06 to R254,5 billion in 2008/09, and include strong growth in justice and crime prevention, accelerated investment in transport and water infrastructure, and increased funding for social assistance grants and higher education. Transfers to municipalities increase from R16,9 billion to R35,6 billion over the three-year period, including compensation for loss of the RSC levies.

Overview of the division of revenue

Building on the policy priorities set out in Chapter 6, this chapter presents the division of revenue between the three spheres of government, taking into account their respective responsibilities and fiscal capacities. It highlights additional allocations over the MTEF period, covers the composition of national transfers to provinces and municipalities, and describes major spending trends.

Division of revenue takes into account fiscal capacities of government spheres

Annexure E, published as an explanatory memorandum to accompany the 2006 Division of Revenue Bill, summarises the recommendations of the Financial and Fiscal Commission (FFC) for the 2006 Budget, and puts forward Government's response to those recommendations. It also provides a detailed account of the formulas used to apportion resources between provinces and municipalities, and gives detailed information on conditional grants – transfers to provinces and

municipalities from national departments that are earmarked for specific programmes.

Provincial and local government get half of nationally raised revenue

The division of revenue proposed for the MTEF period is set out in Table 7.1, together with the expenditure outcomes in 2002/03 to 2004/05 and revised estimates for 2005/06. After setting aside provision for debt service costs and a contingency reserve, 51,4 per cent of nationally raised revenue is allocated to national departments, 42,3 per cent to provinces and 6,3 per cent to municipalities.

Total expenditure from the National Revenue Fund in 2006/07 is expected to amount to R472,7 billion, of which R52,0 billion will go to servicing state debt. After setting aside a contingency reserve of R2,5 billion, a total of R418,2 billion is divided between the three spheres of government. Excluding provision for future contingencies, non-interest spending is budgeted to grow by an average of 11,3 per cent annually, from R367,8 billion in 2005/06 to R507,6 billion in 2008/09.

A contingency reserve is set aside to cover unforeseeable expenditure

Amounts totalling R4,0 billion are set aside, but not yet allocated, to a vote over the MTEF period for investment in stadiums in preparation for the 2010 Soccer World Cup, and for the implementation of the Government Employees' Medical Scheme. The unallocated contingency reserve rises from R2,5 billion in 2006/07 to R8 billion in 2008/09. It includes provision for an Alexkor land claim settlement and capital funding of state-owned enterprises, not yet accurately quantified. The reserve also makes allowance for unforeseeable and unavoidable expenditure in 2006/07, and possible further spending priorities in 2007/08 and 2008/09.

R106,2 billion available for additional spending to improve service delivery and quality

Table 7.2 sets out the additional allocations relative to baseline projections derived from the 2005 Budget forward estimates for 2006/07 and 2007/08, and Treasury projections for 2008/09.¹ Over the next three years R106,2 billion is allocated for additional spending: R22,4 billion in 2006/07, R33,3 billion in 2007/08 and R50,4 billion in 2008/09. In addition, a total of R10,5 billion for transport and community infrastructure announced as new initiatives in the 2005 Budget is now allocated to departments.

The 2006 MTEF provides for real growth in non-interest expenditure of 7 per cent a year between 2005/06 and 2008/09.²

¹Baseline projections for 2008/09, assuming "no policy change", represented an average nominal increase of 7,5 per cent on 2007/08 forward estimates.

²Real growth estimates are based on the projected GDP deflator (see Table 2.2) as an index of inflation.

Table 7.1 Division of nationally raised revenue, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised estimate	Medium-term estimates		
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Non-interest expenditure	244 716	282 396	319 690	367 816	420 676	465 850	515 552
<i>Percentage increase</i>	13,7%	15,4%	13,2%	15,1%	14,4%	10,7%	10,7%
Total expenditure	291 524	328 709	368 541	418 976	472 725	519 174	571 268
<i>Percentage increase</i>	10,9%	12,8%	12,1%	13,7%	12,8%	9,8%	10,0%
Contingency reserve	–	–	–	–	2 500	5 000	8 000
Division of available funds							
National departments	129 297	148 142	168 018	196 429	214 964	233 996	254 495
Provinces	107 317	122 673	137 836	154 528	176 679	196 351	217 481
Equitable share	93 895	107 538	120 885	135 292	150 753	167 701	187 100
Conditional grants	13 422	15 135	16 951	19 237	25 926	28 649	30 382
Local government	8 102	11 581	13 837	16 859	26 532	30 503	35 575
Equitable share	4 187	6 350	7 678	9 643	18 058	20 076	22 775
<i>RSC levy replacement</i>	–	–	–	–	7 000	8 000	9 000
Conditional grants	3 916	5 231	6 159	7 215	8 474	10 428	12 801
Total	244 717	282 396	319 690	367 816	418 176	460 850	507 552
<i>Percentage shares</i>							
National departments	52,8%	52,5%	52,6%	53,4%	51,4%	50,8%	50,1%
Provinces	43,9%	43,4%	43,1%	42,0%	42,3%	42,6%	42,8%
Local government	3,3%	4,1%	4,3%	4,6%	6,3%	6,6%	7,0%

Table 7.2 Additional allocations in the 2006 MTEF

R million	2006/07	2007/08	2008/09	Total
Funds available over 2005 Budget				
National departments	6 303	9 436	14 742	30 481
Provinces	7 791	13 352	21 806	42 949
Equitable share	3 511	9 517	17 853	30 881
Conditional grants	4 280	3 835	3 953	12 068
Local government	8 292	10 549	13 887	32 728
Equitable share	7 543	8 705	9 967	26 215
<i>RSC levy replacement</i>	7 000	8 000	9 000	24 000
Conditional grants	749	1 844	3 920	6 513
Total	22 386	33 337	50 435	106 158
<i>Total excluding RSC levy replacement</i>	<i>15 386</i>	<i>25 337</i>	<i>41 435</i>	<i>82 158</i>

Over the next three years additional allocations of R30,5 billion are earmarked for national departments, R42,9 billion for provinces and R32,7 billion for local government. The sizeable allocation to local government includes R24 billion in compensation for the abolition of the RSC levies.

Government expenditure is either authorised through the main appropriation bill tabled at the time of the Budget, and subsequent adjustments appropriations, or through direct appropriation in terms of provisions of the Constitution, the Public Finance Management Act (PFMA, 1999) and other statutes identified in schedule 5 of the PFMA. Table 7.3 summarises expenditure on direct charges and appropriated amounts since 2002/03, and medium-term projections. For the 2006/07 year, direct charges on the National Revenue Fund

Largest share of additional resources is allocated to provinces

Allowance is made for a R2,5 billion contingency reserve in 2006/07

amounting to R209,6 billion are anticipated, and the main appropriation provides for expenditure of R260,0 billion. Allowance is made for a further R600 million that is not yet allocated, and a R2,5 billion contingency reserve. Past expenditure against appropriations by vote, amounts proposed for 2006/07 and forward estimates for the 2007/08 and 2008/09 years are summarised in Table 4 of Annexure B, and set out in detail in the 2006 *Estimates of National Expenditure*.

Table 7.3 Main budget appropriation, 2002/03 – 2008/09

R million	2002/03	2003/04 Outcome	2004/05	2005/06 Revised estimate	2006/07	2007/08	2008/09
					Medium-term estimates		
Direct charges to the National Revenue Fund							
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Provincial equitable share	93 895	107 538	120 885	135 292	150 753	167 701	187 100
Skills development funds	3 259	3 777	4 725	4 934	5 500	6 000	6 500
Other statutory amounts	874	923	1 035	1 261	1 274	1 358	1 439
Standing appropriations	30	28	25	22	23	24	26
Total	144 866	158 579	175 522	192 669	209 599	228 408	250 781
Appropriation by vote							
Main appropriation	143 177	170 248	195 009	223 906	260 026	284 466	310 347
Adjustments	4 776	2 929	1 216	5 866	–	–	–
Contingency reserve	–	–	–	–	2 500	5 000	8 000
Unallocated amounts	–	–	–	–	600	1 300	2 140
Total	147 953	173 177	196 225	229 771	263 126	290 766	320 487
Savings and underspending	-1 295	-3 047	-3 206	-3 464	–	–	–
Total expenditure	291 524	328 709	368 541	418 976	472 725	519 174	571 268

Revised expenditure estimates

Revised national budget estimates

Table 7.4 sets out the main budget expenditure, revised estimates and preliminary outcome for the 2004/05 national budget, and the revised estimate for 2005/06. The revised estimates take into account rollovers of unspent funds from the previous year, additional amounts announced in the main budget but not allocated to a vote, allocations for unforeseeable and unavoidable expenditure approved by the Treasury Committee, self-financing expenditure, identified savings and other adjustments.

Total expenditure of R368,5 billion in 2004/05

Total expenditure in 2004/05 amounted to R368,5 billion, which is 0,1 per cent less than the revised budget estimate of R370,1 billion, and 12,1 per cent more than in 2003/04. Debt service costs were R1,6 billion less than the original estimate. An amount of R4,3 billion was added to the provincial equitable share allocations and R3,1 billion in net changes to national department appropriations in the adjustments budget, against provision of R3,5 billion in the main budget for contingencies and infrastructure projects. Spending amounted to R3,2 billion less than the adjusted appropriation by vote.

For the 2005/06 year state debt costs are expected to be R1,9 billion less than the budget estimate. The 2005 adjustments appropriation made provision for the following:

- R1,4 billion in unspent funds rolled over from 2004/05
- R1,1 billion for infrastructure projects anticipated but not appropriated in the main budget
- R1,1 billion for unforeseeable and unavoidable expenditure
- R0,7 billion in respect of self-financing expenditure.

The main Treasury Committee allocations in this adjustments appropriation were for water supplies in drought-affected municipalities (R311 million), a contribution to the World Food Programme's relief efforts in the SADC region (R140 million), a supplementary amount for the primary school nutrition programme (R200 million) and drought assistance to farmers (R120 million).

Table 7.4 Preliminary 2004/05 expenditure outcome and 2005/06 revised estimate

R million	2004/05			2005/06		
	Budget	Revised estimate	Preliminary outcome	Budget	Adjustments	Revised estimate
Direct charges to the National Revenue Fund						
State debt cost	50 432	48 901	48 851	53 125	-1 965	51 160
Provincial equitable shares	116 594	120 885	120 885	134 706	585	135 292
Skills development funds	4 300	4 300	4 725	5 000	-66	4 934
Other statutory amounts	963	975	1 035	1 060	201	1 261
Standing appropriations	34	44	25	22	-	22
Total direct charges	172 322	175 105	175 522	193 913	-1 245	192 669
Appropriation by vote						
Main appropriation	193 082	192 890	196 225	221 406	-590	
Adjustments						
Approved rollovers from previous year		1 988			1 446	
National departments		1 761			902	
Transfers to provinces		30			387	
Transfers to local government		197			158	
Unforeseeable and unavoidable expenditure		1 648			5 751	
National departments		1 648			580	
Transfers to provinces		-			161	
Transfers to local government		-			311	
Denel		-			2 000	
Road Accident Fund		-			2 700	
Other adjustments		-383			1 758	
Self financing expenditure		166			700	
Savings identified by departments		-1 129			-5	
Infrastructure investment projects		-			1 063	
Other adjustments		580			-	
Subtotal	193 082	196 143	196 225	221 406	8 366	229 771
Contingency reserve	2 500			2 000	-2 000	
Unallocated	1 000			500	-500	
Total appropriation	196 582	196 143	196 225	223 906	5 866	229 771
Underspending and savings		-1 135	-3 206			-3 464
Total	196 582	195 008	193 019	223 906	5 866	226 307
Total expenditure	368 904	370 113	368 541	417 819	4 621	418 976
Percentage increase over Budget			-0,1%			0,3%
Percentage increase over previous year			12,1%			13,7%

**Second adjustments
appropriation for RAF
and Denel**

A second adjustments appropriation for 2005/06, to be tabled in February 2006, provides for R2,7 billion to supplement the reserves of the Road Accident Fund and R2 billion in capital funding for Denel. Taking into account anticipated savings and underspending of R3,5 billion, the revised estimate of expenditure in 2005/06 is R419,0 billion, or 0,3 per cent higher than the main budget estimate, and 13,7 per cent more than the 2004/05 expenditure outcome.

Revised provincial expenditure estimates

A summary account of the provincial budget outcomes for 2004/05 and revised estimates for 2005/06 is set out in Table 7.5.

Total provincial expenditure in 2004/05 amounted to R141,9 billion, or 0,9 per cent less than the original budget estimates published by provincial treasuries in February 2004 and 4 per cent lower than the adjusted appropriation for that year. The adjusted appropriations of provinces for 2005/06 amount to R164,3 billion, which is an increase of 15,7 per cent on the 2004/05 outcome.

Table 7.5 Revised provincial expenditure estimates: 2004/05 and 2005/06

R million	2004/05			2005/06	
	Main budget	Adjusted appropriation	Outcome	Main budget	Adjusted appropriation
Eastern Cape	22 502	22 084	21 598	23 392	23 904
Free State	9 737	10 215	9 706	10 583	11 103
Gauteng	24 872	25 708	24 787	26 604	27 579
KwaZulu-Natal	28 294	29 600	28 039	32 802	33 779
Limpopo	18 316	19 320	18 729	20 643	21 367
Mpumalanga	10 144	10 640	10 032	11 297	12 027
Northern Cape	3 486	3 480	3 321	3 721	3 993
North West	11 469	11 855	11 111	12 843	13 529
Western Cape	14 475	15 016	14 610	16 389	16 972
Total	143 294	147 919	141 933	158 274	164 254

Medium-term expenditure estimates: national votes

**National department
spending of
R214 billion in 2006/07**

The 2006 MTEF provides for spending on national votes of R214,9 billion in 2006/07, R233,9 billion in 2007/08 and R254,5 billion in 2008/09, excluding conditional grants. With effect from 2006/07, social assistance grants will be administered by the South African Social Security Agency and will no longer be financed through conditional grants or appear on provincial budgets. The provincial share of the overall budget decreases accordingly.

To allow for consistent comparison of trends, adjustments are backdated to 2002/03 in the tables below where possible.

Table 4 of Annexure B sets out past expenditure by national votes, and the proposed allocations for the MTEF period, together with conditional grant allocations for provinces and municipalities. Details are provided in the *Estimates of National Expenditure*, together with

discussion of legislative and policy developments, programme objectives and service delivery targets.

Significant adjustments to national department allocations are briefly noted below.

Central government administration

Table 7.6 sets out past expenditure and medium-term allocations of the central government administration departments. Budget allocations to the *Presidency* for the period ahead include provision for strengthening research and policy capacity, and the initiation of a national income dynamics survey to improve monitoring and analysis of household income and poverty trends. *Parliament* receives upward adjustments for enhancing internal capacity and improved support for committee work.

Presidency to strengthen research and policy capacity

Table 7.6 Central government administration: expenditure by vote, 2002/03 – 2008/09

R million	2002/03	2003/04 Outcome	2004/05	2005/06 Revised estimate	2006/07	2007/08	2008/09
					Medium-term estimates		
Appropriation by vote¹							
The Presidency	139	143	168	193	256	270	279
Parliament	307	449	581	500	782	836	882
Foreign Affairs	2 371	2 164	2 393	2 612	3 042	3 409	3 646
Home Affairs	1 430	2 022	2 069	2 941	2 800	3 054	3 743
Provincial and Local Government	6 570	9 456	13 138	15 978	24 903	27 824	31 453
<i>Local government equitable share</i>	4 187	6 350	7 678	9 643	18 058	20 076	22 775
<i>Grants to local government</i>	1 959	2 593	4 902	5 947	6 465	7 349	8 253
<i>Grants to provinces</i>	241	260	220	41	–	–	–
Public Works	1 745	2 025	2 244	2 149	3 080	3 495	3 873
<i>Grants to local government</i>	260	262	–	–	–	–	–
	12 562	16 258	20 594	24 373	34 864	38 888	43 875
Statutory appropriations							
The Presidency	2	2	2	2	2	2	2
Parliament	173	191	204	212	229	241	254
Total	12 737	16 451	20 800	24 587	35 096	39 131	44 131

1. Departmental MTEF allocations now include provision for government accommodation costs, formerly budgeted on the Public Works vote. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure from Public Works to other departments, for comparability.

The *Department of Foreign Affairs* receives a further R229 million in 2006/07, R320 million in 2007/08 and R367 million in 2008/09, mainly to recapitalise the African Renaissance Fund, contribute to the African Union (AU) and acquire properties abroad for diplomatic purposes. These adjustments will also contribute to covering South Africa's increasing representation in Asia, and the construction of a new headquarters for the department.

Increases for the African Renaissance Fund and contributions to the AU

The turnaround strategy implemented by the *Department of Home Affairs* receives an additional R410 million over the medium term. The Independent Electoral Commission receives further support

amounting to R18 million, R30 million and R420 million over the respective years of the MTEF to cover costs related to preparation of the 2009 national and provincial elections.

Allocations to the *Provincial and Local Government* vote include the local government equitable share, the municipal infrastructure grant (MIG) and support for municipal capacity-building initiatives. Additional funding of R45 million for Project Consolidate is provided, and upward adjustments are made for the Commission on the Resolution of Traditional Disputes, and the Commission on Cultural, Religious and Linguistic Communities.

R1,9 billion for the decentralisation of office accommodation

Expenditure previously included on the *Public Works* vote for maintenance of government accommodation, rates and municipal charges and property leases has been devolved to client departments with effect from 2006/07. The devolved allocations include an additional R1,9 billion to contribute to improved maintenance and adjustments in leasing costs, while a total of R300 million is retained for the Tshwane inner-city development programme. An additional R380 million is allocated for rehabilitation and construction of improved facilities at border posts.

Transfer of accommodation-related budgets

For nearly 40 years the Department of Public Works has been the custodian of the state's immovable assets. This includes providing accommodation to national departments and various national government agencies, either through state-owned facilities or leasing of privately owned office accommodation.

While this has the advantage of consolidating property management capacity in a single administration, it meant that departmental managers were not accountable for the infrastructure and accommodation at their disposal. The accountability requirements of the Public Finance Management Act call for reforms to the financial management of government property and accommodation services. In line with the act, a phased devolution of accommodation-related budgets to national user departments will be implemented from 1 April 2006. The Department of Public Works (DPW) will, in turn, charge departments for the provision of accommodation services.

The DPW will use the income generated through a trading account to manage, maintain and replace state-owned properties, and pay for leases on behalf of national departments to third parties.

Departments will be required to pay an accommodation charge for the utilisation of state-owned facilities, and will reimburse the DPW for leasing costs incurred on their behalf. The DPW will continue to exercise ownership responsibility for state property, including payment of municipal rates.

Financial and administrative services

National Treasury to replace outdated financial systems

The additional R543 million in 2006/07, R859 million in 2007/08 and R1 billion in 2008/09 allocated to the *National Treasury* includes funds for the replacement of outdated financial management systems. Of these adjustments, allocations of R220 million, R330 million and R420 million are made to SARS to strengthen revenue collection and customs operations.

An additional R45 million is allocated to the *Department of Public Enterprises* over the next three years, mainly to strengthen internal capacity and contribute to parastatal restructuring initiatives. An amount of R580 million is provided in 2006/07 as funding for the pebble-bed modular reactor company.

The 2006/07 allocation to *Public Service and Administration* includes R76 million to implement a new incapacity leave and ill-health

retirement framework for the public service, and R210 million is provided over the MTEF to strengthen departmental capacity.

Government Employees' Medical Scheme (GEMS)

Government has established GEMS, a closed medical scheme for public servants, to provide government employees with better-value and affordable access to medical care cover.

Currently about 40 per cent of public servants do not take advantage of the medical scheme membership benefit that is part of the standard employment offer. The cost of this benefit to the state as employer is more than R5 billion a year, but this expenditure disproportionately benefits higher-income employees. The main impediment to medical scheme membership appears to be the cost of alternative options.

The introduction of an official government medical scheme is intended to take advantage of the economies of scale available to the state as employer, and of best practice in the design and management of medical schemes. The GEMS benefit plans provide an affordable option for all public service employees.

Member enrolment commenced from 1 January 2006. GEMS offers five benefit plans differentiated by cost and benefits, with member contributions related to income. The 2006 Budget framework sets aside a total of R6 billion over the next three years to allow for the take-up of medical scheme membership by public service employees not currently covered.

Additional allocations to *Statistics South Africa* include funding for an improved income and expenditure survey, and enhancements to labour statistics and consumer price data series. An additional R126 million is allocated in 2008/09 for preliminary work ahead of the 2011 census.

Table 7.7 Financial and administrative services: expenditure by vote, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised estimate	Medium-term estimates		
Appropriation by vote¹							
Government Communication and Information System	159	186	211	253	288	319	346
National Treasury	9 863	12 112	13 510	13 958	15 548	18 510	19 769
<i>South African Revenue Service</i>	3 502	3 792	4 603	4 254	4 846	5 237	5 559
<i>Secret Services</i>	1 329	1 771	2 117	2 330	2 223	2 334	2 444
<i>Grants to provinces</i>	1 950	2 534	3 348	3 731	4 118	5 324	5 697
<i>Grants to local government</i>	306	705	586	549	599	1 499	1 700
Public Enterprises	211	84	679	2 676	683	118	128
Public Service and Administration	139	156	129	188	326	256	275
Public Service Commission	62	69	77	92	96	102	107
South African Management Development Institute	31	37	34	57	59	57	57
Statistics South Africa	376	300	371	711	1 074	930	1 085
	10 840	12 944	15 011	17 935	18 075	20 292	21 767
Statutory appropriations							
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Provincial equitable share	93 895	107 538	120 885	135 292	150 753	167 701	187 100
Total	151 543	166 796	184 747	204 387	220 877	241 318	264 582

1. Departmental MTEF allocations now include provision for government accommodation costs, formerly budgeted on the Public Works vote. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure from Public Works to other departments, for comparability.

Social services

Library services to receive a boost over the next three years

Additional allocations of R58 million, R280 million and R656 million are made to the *Department of Arts and Culture* over the next three years. Of these amounts, R565 million is allocated to support the shift of library services from municipalities to provinces, and to provide for recapitalisation of the service in 2007/08 and 2008/09. A baseline adjustment of R170 million is made for cultural institutions. The Pan South African Language Board is allocated an additional R8 million, R10 million and R12 million.

Support for higher education

The *Department of Education* receives an additional R350 million in 2006/07, R650 million in 2007/08 and R1 billion in 2008/09 to increase funding to higher education institutions. The department also receives R35 million, R37 million and R40 million for maths and science teacher development, and the implementation of the new curriculum for grades 11 and 12. A further R400 million is allocated for the recapitalisation of further education and training colleges, bringing the total available for this initiative from 2005/06 to 2008/09 to R2 billion.

Increased investment in hospital infrastructure

Additional allocations on the *Health* vote provide for accelerated investment in rehabilitation and revitalisation of hospitals, development of the medical schemes' Risk Equalisation Fund and establishment of forensic pathology capacity in provincial health departments.

Table 7.8 Social services: expenditure by vote, 2002/03 – 2008/09

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
R million	Outcome			Revised estimate	Medium-term estimates		
Appropriation by vote¹							
Arts and Culture	610	924	1 114	1 129	1 318	1 534	1 976
Education	9 326	10 557	11 340	12 612	14 129	15 343	16 690
<i>Grants to provinces</i>	936	1 136	991	1 248	1 713	1 900	2 195
Health	2 973	3 223	3 523	4 079	4 696	5 006	5 293
<i>Grants to provinces</i>	6 353	6 783	7 444	8 907	10 033	10 721	11 343
Labour	1 337	1 072	1 164	1 350	1 513	1 597	1 677
Social Development ²	30 223	39 357	47 766	55 789	62 005	67 222	73 347
<i>Grants to provinces</i>	11	–	–	–	–	–	–
Sport and Recreation SA	173	224	283	459	352	399	450
<i>Grants to local government</i>	84	122	134	–	–	–	–
<i>Grants to provinces</i>	–	–	9	24	119	154	205
	44 642	55 357	65 189	75 417	84 014	91 101	99 434
Statutory appropriations							
Labour: Skills development	3 259	3 777	4 725	4 934	5 500	6 000	6 500
Total	47 901	59 134	69 915	80 351	89 514	97 101	105 934

1. Departmental MTEF allocations now include provision for government accommodation costs, formerly budgeted on the Public Works vote. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure from Public Works to other departments, for comparability.

2. Includes provision for social grants. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure for comparability.

The *Social Development* vote includes R57,7 billion for social assistance grants to households in 2006/07, rising to R68,3 billion in 2008/09. Funding is also provided for the South African Social Security Agency and establishment of an inspectorate to contribute to oversight of social security administration.

Justice and protection services

Revisions to the *Department of Defence* baselines of R485 million in 2006/07, R1,4 billion in 2007/08 and R2,1 billion in 2008/09 support the infrastructure and equipment modernisation programme, military skills development and improvements in health services.

R4 billion for defence modernisation, skills and infrastructure

The strategic defence procurement programme stretches over 12 years, with the final payment due in 2011/12. Table 7.9 reflects the annual cost projections. Taking into account revised exchange rate projections and rescheduling of some payments, the total cost of the programme is expected to amount to R44,8 billion, compared with the 2005 Budget estimate of R45,6 billion.

Table 7.9 Projected costs in relation to the acquisition of strategic armaments

R million	2000/01	2002/03	2002/03	2003/04	2004/05	2005/06	
Costs	2 901	4 223	6 342	5 864	4 502	6 331	
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
Projected costs	4 536	3 633	3 158	1 160	1 098	1 045	44 793

Additional allocations of R350 million in 2006/07, R550 million in 2007/08 and R900 million in 2008/09 to the *Department of Justice and Constitutional Development* support improved management of court cases, and efforts to modernise the justice system.

Table 7.10 Justice and protection services: expenditure by vote, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised estimate	Medium-term estimates		
Appropriation by vote¹							
Correctional Services	7 505	7 850	8 829	9 769	10 631	11 767	12 451
Defence	19 473	20 505	20 201	23 516	23 830	24 666	25 734
Independent Complaints Directorate	36	41	47	55	66	74	83
Justice and Constitutional Development	3 987	4 236	4 670	5 456	6 270	6 953	7 688
Safety and Security	20 380	22 693	25 415	29 361	32 558	35 559	38 483
	51 381	55 325	59 162	68 157	73 354	79 019	84 439
Statutory appropriations							
Justice and Constitutional Development: Judges and Magistrates salaries	699	730	829	1 047	1 043	1 115	1 183
Total	52 080	56 055	59 991	69 204	74 397	80 134	85 622

1. Departmental MTEF allocations now include provision for government accommodation costs, formerly budgeted on the Public Works vote. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure from Public Works to other departments, for comparability.

The *Department of Safety and Security* receives a further R510 million, R962,4 million and R2,1 billion over the MTEF period to increase police capacity and introduce a paid reservist system, and to help the SAPS prepare for the 2010 Soccer World Cup.

Economic services and infrastructure

Allocations support tourism marketing and promotion

Additional allocations of R109 million in 2006/07, R322 million in 2007/08 and R434 million in 2008/09 to the *Department of Environmental Affairs and Tourism* provide for a range of infrastructure projects, and tourism marketing and promotion.

The *Department of Science and Technology* receives additional amounts of R428 million, R465 million and R675 million, mainly for research infrastructure, strategic research and development programmes and to retain and train scientists.

R2,3 billion for industrial policy development

Additions of R416 million, R565 million and R765 million to the baseline allocations of the *Department of Trade and Industry* are for industrial policy development and industrial development zones.

Table 7.11 Economic services and infrastructure: expenditure by vote, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised estimate	Medium-term estimates		
Appropriation by vote¹							
Agriculture	933	1 195	1 408	1 912	1 958	2 193	2 300
<i>Grants to provinces</i>	24	66	344	410	345	462	484
Communications	895	850	1 664	1 043	1 280	1 305	1 374
Environmental Affairs and Tourism	1 384	1 456	1 661	1 767	2 018	2 413	2 632
Housing	4 218	4 560	4 808	5 256	6 861	8 576	9 451
<i>Grants to provinces</i>	3 907	4 355	4 589	4 868	6 350	7 938	8 721
Land Affairs	1 102	1 636	2 022	2 963	4 852	5 678	5 994
<i>Grants to provinces</i>	–	–	6	8	8	–	–
Minerals and Energy	1 867	1 812	1 876	2 272	2 548	2 717	2 954
<i>Grants to local government</i>	225	245	196	313	391	407	458
Science and Technology	1 101	1 392	1 633	2 044	2 614	2 908	3 250
Trade and Industry	2 107	2 349	2 522	3 146	3 666	3 958	4 327
Transport	5 718	6 233	6 680	10 554	12 870	13 599	15 513
<i>Grants to local government</i>	40	9	–	242	519	624	1 790
Water Affairs and Forestry	3 743	4 251	3 858	3 759	4 477	4 809	5 626
<i>Grants to local government</i>	1 043	1 295	341	165	500	550	600
Total	23 071	25 733	28 132	34 714	43 144	48 156	53 422

1. Departmental MTEF allocations now include provision for government accommodation costs, formerly budgeted on the Public Works vote. The reported outcomes for 2002/03 - 2005/06 in this table include corresponding shifts of expenditure from Public Works to other departments, for comparability.

Additional R8,1 billion for road infrastructure, commuter rail and public transport

The *Department of Transport* is allocated an additional R694 million, R1,2 billion and R1,9 billion over the next three years for road infrastructure, and for the recapitalisation of passenger rail networks and coaches. Of these allocations, R239 million is earmarked for the restructuring of the RAF, transport regulation, and rural transport strategy. The new public transport infrastructure and systems grant to local government receives R700 million in 2006/07, R1 billion in

2007/08 and R1,8 billion in 2008/09. A total of R7,1 billion is allocated as a conditional grant for the Gautrain rapid rail project.

The *Department of Water Affairs and Forestry* receives an additional R599 million in 2006/07, R543 million in 2007/08 and R1 billion in 2008/09 for the construction of the De Hoop dam and the refurbishment of water schemes.

Revisions to the provincial budget framework

Additional allocations and provincial policy priorities

National transfers account for 96,5 per cent of the resources available to provinces. The remainder is from own revenue sources, which consist mainly of motor vehicle license fees, hospital fees and gambling taxes.

The 2006 Budget provides for total additional provincial spending of R7,8 billion in 2006/07 and R13,4 billion in 2007/08 over the forward estimates published in the *2005 Budget Review*, and an increase of R21,8 billion to the 2008/09 baseline allocation. The provincial equitable share baselines are revised upwards by R30,9 billion and conditional grants are increased by R12,1 billion over the next three years.

Allocations strengthen provinces' ability to provide social services

Alongside social service priorities, discussed in greater detail in Chapter 6, the revised provincial equitable share will also allow for substantial growth in spending on rehabilitation and maintenance of provincial roads, agricultural support for emerging farmers and bolstering provincial tourism.

Table 7.12 Provincial revenue, 2005/06 – 2008/09

R million	2005/06		2006/07	2007/08	2008/09
	Budget	Revised estimate			
Transfers from national	153 981	154 528	176 679	196 351	217 481
Equitable share	135 292	135 292	150 753	167 701	187 100
Conditional grants	18 689	19 237	25 926	28 649	30 382
Own revenue	5 772	6 787	6 331	6 747	7 087
Total	159 753	161 316	183 011	203 097	224 568
<i>Percentage growth</i>					
Transfers from national			14,3%	11,1%	10,8%
Equitable share			11,4%	11,2%	11,6%
Conditional grants			34,8%	10,5%	6,0%
Own revenue			-6,7%	6,6%	5,0%
Total			13,4%	11,0%	10,6%

Provinces have responsibility for the implementation of several social service employment programmes. It is anticipated that about R4 billion over the three-year period will be allocated to employment-intensive programmes for community health services, home and community-based care and early childhood development, and associated training projects. Conditional grants to provinces include

Increased employment in community services

substantial allocations to support housing development, hospital infrastructure, further education and training colleges, and Gautrain.

Revised provincial budget framework

Table 7.12 shows the revised provincial budget framework for 2005/06 and the MTEF period.

Allocations to provinces grow by 12,1 per cent a year

National transfers to provinces increase from R154,5 billion in 2005/06 to R176,7 billion in 2006/07. Over the three-year period provincial transfers are projected to grow at an average annual rate of 12,1 per cent to R217,5 billion in 2008/09. Provincial own revenue, which makes up 3,5 per cent of available resources for provinces, remains broadly stable over the next three years. Table 7.13 sets out the national transfers by province. Further details of the provincial allocations are contained in Annexure E.

Table 7.13 Total transfers to provinces, 2004/05 – 2008/09

R million	2004/05	2005/06		2006/07	2007/08	2008/09
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	21 490	24 708	24 776	27 453	30 542	33 715
Free State	9 214	10 201	10 239	11 282	12 633	13 898
Gauteng	24 061	25 256	25 362	32 106	34 450	37 815
KwaZulu-Natal	26 515	31 708	31 859	36 018	40 693	45 683
Limpopo	18 279	20 274	20 327	22 612	25 309	28 233
Mpumalanga	9 959	11 009	11 043	12 435	14 035	15 641
Northern Cape	3 386	3 700	3 750	4 367	4 863	5 174
North West	11 284	12 423	12 427	13 999	15 650	17 318
Western Cape	13 648	14 702	14 744	16 407	18 177	20 004
Total	137 836	153 981	154 528	176 679	196 351	217 481

Table 7.14 shows the main categories of national transfers to provinces for 2006/07. Total transfers are R176,7 billion, of which 85,3 per cent or R150,8 billion is allocated as an unconditional equitable share, and 14,7 per cent or R25,9 billion as conditional grants.

Table 7.14 Transfers to provinces, 2006/07

R million	Equitable share	Conditional grants					Total
		Health	Provincial Infrastructure Grant	Housing	Education	Other ¹	
Eastern Cape	24 643	905	742	762	320	81	27 453
Free State	9 595	780	243	523	103	38	11 282
Gauteng	23 362	3 077	408	1 758	226	3 276	32 106
KwaZulu-Natal	32 052	1 601	870	1 048	362	83	36 018
Limpopo	20 616	406	729	521	267	73	22 612
Mpumalanga	11 227	300	317	421	127	42	12 435
Northern Cape	3 452	539	202	105	42	28	4 367
North West	12 347	495	354	613	135	56	13 999
Western Cape	13 459	1 930	253	599	130	36	16 407
Total	150 753	10 033	4 118	6 350	1 713	3 713	176 679

1. Includes grants in the national departments of Agriculture, Land Affairs, Sport and Recreation South Africa and Transport.

The equitable share

The forward estimates for the provincial equitable share published in last year's budget are revised upwards by R3,5 billion in 2006/07, R9,5 billion in 2007/08 and R17,9 billion in 2008/09, resulting in growth of 11,4 per cent between 2005/06 and 2006/07 and 11,4 per cent over the MTEF period. Provincial equitable share allocations by province, and the formula for calculating these allocations, are set out in Part 3 of Annexure E.

Table 7.15 Provincial equitable shares, 2004/05 – 2008/09

R million	2004/05	2005/06		2006/07	2007/08	2008/09
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	19 329	22 326	22 326	24 643	27 189	30 091
Free State	7 887	8 719	8 719	9 595	10 567	11 666
Gauteng	19 847	20 860	20 860	23 362	26 072	29 190
KwaZulu-Natal	23 689	28 502	28 502	32 052	35 957	40 446
Limpopo	16 775	18 463	18 463	20 616	22 993	25 726
Mpumalanga	9 059	10 029	10 029	11 227	12 559	14 086
Northern Cape	2 874	3 142	3 142	3 452	3 790	4 174
North West	10 149	11 151	11 151	12 347	13 669	15 175
Western Cape	11 277	12 100	12 100	13 459	14 906	16 546
Total	120 885	135 292	135 292	150 753	167 701	187 100

Conditional grants to provinces

After the transfer of responsibility for social assistance grants to national government, and several other adjustments to specific grant frameworks, conditional grants are budgeted to grow from R19,2 billion in 2005/06 to R30,4 billion in 2008/09. Growth is mainly due to the upward revision of some conditional grants, along with the introduction of the forensic pathology services grant, and the further education and training college sector grant.

Conditional grants grow to R30,4 billion

The integrated housing and human settlement development grant is allocated an additional R3,0 billion over the next three years to implement the comprehensive housing strategy. In total, the housing programme is allocated R23,0 billion over the next three years.

Housing programme allocated R23,0 billion

The hospital revitalisation grant, which assists provinces to transform and modernise infrastructure and equipment, is allocated an additional R900 million over the next three years, bringing its total allocation to R5,1 billion.

Table 7.16 sets out all the conditional grants to provinces over the MTEF period. A detailed explanation of each conditional grant is contained in Annexure E.

Table 7.16 Conditional grants to provinces, 2005/06 – 2008/09

R million	2005/06	2006/07	2007/08	2008/09
Agriculture	410	345	462	484
Agricultural disaster management grant	120	–	–	–
Comprehensive agricultural support programme grant	250	300	415	435
Land care programme grant: poverty relief and infrastructure development	40	45	47	49
Education	1 248	1 713	1 900	2 195
Further education and training college sector recapitalisation grant	–	470	595	795
HIV and AIDS (life skills education) grant	136	144	152	162
National school nutrition programme grant	1 112	1 098	1 153	1 238
Health	8 907	10 033	10 721	11 343
Comprehensive HIV and AIDS grant	1 150	1 567	1 646	1 735
Forensic pathology services grant	271	525	551	467
Health professions training and development grant	1 520	1 520	1 596	1 676
Hospital revitalisation grant	1 256	1 440	1 707	1 983
National tertiary services grant	4 709	4 981	5 221	5 482
Housing	4 868	6 350	7 938	8 721
Integrated housing and human settlement development grant	4 868	6 350	7 938	8 721
Land Affairs	8	8	–	–
Land distribution: Alexandra urban renewal project grant	8	8	–	–
National Treasury	3 731	4 118	5 324	5 697
Provincial infrastructure grant	3 731	4 118	5 324	5 697
Provincial and Local Government	41	–	–	–
Disaster relief grant	41	–	–	–
Sport and Recreation South Africa	24	119	154	205
Mass sport and recreation participation programme grant	24	119	154	205
Transport	–	3 241	2 151	1 736
Gautrain rapid rail link	–	3 241	2 151	1 736
Total	19 237	25 926	28 649	30 382

Consolidated provincial budget estimates

Table 7.17 sets out actual aggregated expenditure trends for the past three years and preliminary provincial MTEF budgets for the next three years. The MTEF expenditure projections are based on indicative provincial budget figures, and should not be taken as accurate aggregations of the 2006 provincial budgets. These budget projections reflect strong alignment with the priorities set out in the 2005 *Medium Term Budget Policy Statement*.

Strong growth in provincial expenditure over the MTEF

Taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, provinces are expected to spend R183,6 billion in 2006/07, R203,1 billion in 2007/08 and R223,8 billion in 2008/09. The following key trends emerge:

- Social services spending (which now excludes social assistance programmes) accounts for 74 per cent of provincial spending.
- Investment in social and economic infrastructure continues its strong growth over the next three years. Provinces are currently spending 62,6 per cent more on capital assets than in 2002/03.

Government's infrastructure delivery and improvement plan is improving the quality and speed of provincial infrastructure, enabling provinces to sustain much higher spending plans. Provinces plan to spend R51,8 billion over the next three years on capital assets.

- Compensation of employees constitutes 57 per cent of total provincial spending because education and health are personnel intensive. Personnel expenditure is set to grow moderately over the next three years, mainly to support educator pay progression and career advancement, staff improvements in the health sector, and broadening of employment in basic social welfare and household care services.

Table 7.17 Consolidated provincial expenditure according to function, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised estimate	Medium-term estimates		
Education	53 225	60 353	64 795	71 802	79 277	87 404	95 427
Health	33 054	37 172	40 780	46 354	51 707	56 080	60 829
Welfare	2 748	3 199	3 628	4 909	5 376	6 296	7 640
Housing and community development	7 502	8 359	8 656	9 812	11 592	13 756	15 049
Public works, roads and transport	10 560	11 981	13 039	15 198	20 627	22 503	24 270
Other functions	9 189	10 777	11 035	11 418	14 990	17 024	20 584
Total expenditure	116 278	131 841	141 933	159 494	183 568	203 062	223 800
Total revenue	113 101	128 932	144 065	161 316	183 011	203 097	224 568
Surplus (+) / Deficit (-)	-3 177	-2 909	2 132	1 822	-557	35	768
Economic classification							
Current payments	94 439	105 048	114 204	126 505	142 631	156 478	171 159
<i>Of which compensation</i>	<i>73 679</i>	<i>80 710</i>	<i>87 644</i>	<i>94 429</i>	<i>105 786</i>	<i>114 085</i>	<i>121 631</i>
Transfers and subsidies	14 096	17 227	17 531	20 618	26 251	29 364	32 721
Payments for capital assets	7 743	9 565	10 198	12 371	14 686	17 221	19 920
<i>Percentage shares of total expenditure</i>							
Social services	76,6%	76,4%	76,9%	77,2%	74,3%	73,8%	73,2%
Other functions ¹	23,4%	23,6%	23,1%	22,8%	25,7%	26,2%	26,8%

1. Includes Housing and community development and Public works, roads and transport.

Local government budget framework revisions

Over the next three years government will work to reinforce a stable, dynamic and efficient system of local government that provides more rapid delivery of quality free basic services to households that cannot afford them. Building on the successes of the past, over the medium term government seeks to ensure that:

- Free basic services (water, sanitation and electricity) are provided to all qualifying communities
- A proper waste management system is in place
- The bucket system is eradicated
- The built environment develops, with all the necessary infrastructure to bring about sustainable communities
- Financial management and the capacity of municipalities to delivery quality services is deepened

- The delivery of municipal infrastructure contributes to job creation.

Revised local government baselines to expedite rollout of free basic services

The national budget framework adds R8,3 billion in 2006/07, R10,5 billion in 2007/08 and R13,9 billion in 2008/09 to the local government budget framework. Over the next three years, local government equitable share baselines are revised upwards by R1,6 billion to expedite the rollout of free basic services. The revised equitable share also contributes to councillor remuneration and to compensate for removal of the RSC levies.

Additional allocations to conditional grants amount to R6,5 billion. These revisions to the local government budget framework should allow municipalities to speed up service delivery and enhance the quality of their services.

Table 7.18 National transfers to local government, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
		Outcome		Revised estimate	Medium-term estimates		
Direct transfers to local government							
Equitable share and related	4 230	6 623	7 811	9 808	18 558	20 626	23 375
Equitable Share ¹	4 187	6 350	7 678	9 643	18 058	20 076	22 775
Water and Sanitation Operating	43	273	133	165	500	550	600
Infrastructure	3 472	4 102	5 258	6 302	7 225	9 129	11 801
Municipal Infrastructure Grant	1 865	2 442	4 440	5 436	6 265	7 149	8 053
Public Transport Infrastructure and Systems	–	–	–	242	519	624	1 790
Local Neighbourhood Development Partnership Grant	–	–	–	–	50	950	1 500
National Electrification Programme	225	245	196	313	391	407	458
Implementation of Water Services Projects	999	1 022	208	–	–	–	–
Disaster Relief	–	–	280	311	–	–	–
Poverty Relief Funds and other ²	383	393	134	–	–	–	–
Current transfers	400	856	768	749	749	749	400
Restructuring Grant	151	494	388	350	350	350	–
Financial Management Grant	155	211	198	199	199	199	200
Municipal Systems Improvement Grant	94	151	182	200	200	200	200
Sub total direct transfers³	8 102	11 581	13 837	16 859	26 532	30 503	35 575
Indirect transfers to local government							
Water and Sanitation Operating	656	817	819	904	491	490	531
National Electrification Programme	740	796	819	863	977	1 016	1 143
Sub total indirect transfers	1 396	1 613	1 638	1 767	1 468	1 506	1 673
Total	9 498	13 194	15 474	18 626	28 000	32 010	37 249

1. Includes main local government equitable share, replacement of RSC levies and special support for councillor remuneration.

2. Includes phasing out of poverty relief grants and Urban Transport Fund.

3. Reflects local government's share of the division of revenue.

Municipal infrastructure transfers

Every year the national government makes large transfers to municipalities to support development of infrastructure, particularly in low-income communities. Funding is targeted to assist the building of township roads, water reticulation, sanitation systems, electricity connections, street lighting, community halls, and other infrastructure needs. The municipal infrastructure grant (MIG) provides the bulk of these subsidies.

The MIG is a conditional grant, under which funds must be spent on infrastructure and in previously disadvantaged areas. The conditions also ensure that it makes use of labour-intensive construction methods in line with the expanded public works programme.

The table below shows aggregate infrastructure grants from national to local government since 1998/99 growing by 24,7 per cent a year to 2005/06, and then rising by 26,2 per cent a year over the MTEF. From 2004, a number of separately administered grants were phased into the MIG, as reflected in the table.

National transfers to local government, 1998/99 – 2008/09

R million	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
									Medium-term estimates		
CMIP	703	696	851	996	1 723	2 285	-	-	-	-	-
Water Services Project	520	626	725	757	999	1 022	217	139	-	-	-
Community Based Public Works	152	356	374	357	260	262	-	-	-	-	-
Local Economic Development Fund	-	10	78	87	143	117	-	-	-	-	-
Sport and Recreation Facilities	-	-	-	36	84	122	134	-	-	-	-
National Electrification Programme	-	-	-	-	225	245	251	313	391	407	458
Urban Transport Fund	-	30	22	38	40	9	-	-	-	-	-
Municipal Infrastructure Grant	-	-	-	-	-	41	4 481	5 436	6 265	7 149	8 053
Public Transport Infrastructure & Systems Fund	-	-	-	-	-	-	-	242	519	624	1 790
Neighbourhood Development Partnership Grant	-	-	-	-	-	-	-	-	50	950	1 500
Other	-	-	6	33	-	-	280	311	-	-	-
Total	1 375	1 718	2 056	2 304	3 474	4 103	5 363	6 441	7 225	9 129	11 801

The MIG remains the largest single infrastructure allocation from the National Treasury and has been increased in this budget by R800 million to R21,5 billion over the three-year period. Another large grant, the national electrification programme, which provides electricity connections to poor households, has been increased by R280 million to R4,4 billion over the MTEF.

Since the inception of the MIG in 2004/05, government has transferred about R10 billion to municipalities to help them alleviate infrastructure backlogs. Currently there are 3 419 infrastructure projects planned or under construction in 253 municipalities.

The MIG is complemented by other initiatives to support improved delivery and alleviate capacity constraints at local government level, such as Project Consolidate. These initiatives include strengthening municipal leadership and administration, anti-corruption programmes, development of reliable integrated billing systems and establishing a pool of retired engineers to mentor graduates on construction projects.

The MIG receives an additional R800 million over the MTEF period. However, the incorporation of the integrated electrification programme into the infrastructure grant planned for 2006/07 has been deferred until electricity distribution industry restructuring is completed.

Revised local government budget framework

National transfers to local government occur mainly through an unconditional equitable share and conditional grants. Conditional grants are allocated for infrastructure, capacity building and restructuring. With the revisions to the forward estimates set out above, direct national transfers to local government increase from R16,9 billion in 2005/06 to R26,5 billion in 2006/07. Table 7.18 sets out the revised national transfers to local government.

Excluding transfers to replace the RSC levies, the equitable share component grows by 7,7 per cent per year in real terms over the MTEF period, from R9,6 billion in 2005/06 to R13,8 billion in 2008/09. This should position municipalities to accelerate the delivery of free basic services to households.

The division of the local government equitable share among municipalities is based on a formula that targets poverty and favours poor municipalities with less revenue-raising capacity. The new formula was introduced at the start of 2005/06 and will be fully implemented by 2007/08. Full details are found in Annexure E.

Conditional grants to local government

Rationalisation of local government grants reduces administrative burden

The number of grants to local government has been reduced, simplifying the transfer system and the associated administrative burden, providing a greater degree of certainty and improving flexibility for municipalities. The local government restructuring grant is phased into the local government equitable share in 2008/09. The consolidation of all infrastructure grants was supposed to be completed in 2006/07. However, as mentioned earlier, the incorporation of the integrated electrification programme has been delayed. After these minor changes to the local government conditional grant framework, spending on conditional grants is budgeted to grow from R7,2 billion in 2005/06 to R12,8 billion in 2008/09.

Grant builds municipal technical skills and planning capacity

Municipal budgets need to reflect the correct balance between current and infrastructure spending. Capacity-building and restructuring grants support municipalities in developing their planning, budgeting, financial management and technical skills. The local government restructuring grant is phased into the local government equitable share in 2008/09 as the programme comes to an end. As a result, the funding for capacity building and restructuring decline from R750 million in 2007/08 to R400 million in 2008/09.

The public transport infrastructure and systems grant, and the new local neighbourhood development partnership grant, are allocated R2,9 billion and R2,5 billion respectively over the three-year period. These grants support local government projects that will provide a foundation for sustainable neighbourhoods, while simultaneously attracting private sector investment in under-serviced communities.

Conclusion

The division of additional resources set out in this chapter puts each sphere of government in a position to contribute to the vision of shared and accelerated growth that underpins the 2006 Budget. Strong growth in national transfers to provinces, including earmarked funding for FET colleges, will contribute to broader and deeper skills development, while municipalities are being placed in a position to accelerate the provision of free basic services.