

Division of revenue and intergovernmental transfers

The 2007 medium-term expenditure framework provides for strong real growth in expenditure by national, provincial and local government, supporting the objectives of economic growth, social development and improved public-sector capacity. The division of revenue between the three spheres of government reflects government's key priorities.

Allocations of national revenue in 2007/08 are as follows: national government receives 50,4 per cent, provinces receive 42,4 per cent and local government receives 7,2 per cent. Local government's share of national revenue shows the strongest growth of 19,0 per cent a year over the MTEF, supporting the rollout of free basic services and infrastructure, while national and provincial government's shares grow by 10,3 and 12,7 per cent respectively. Provincial allocations for housing, education, HIV and Aids programmes, hospital revitalisation and public transport grow strongly.

National government is also providing funds to municipalities for investment associated with the 2010 FIFA World Cup that will benefit all South Africans over the long term.

Introduction

The 2007 MTEF provides for strong real growth in government spending. Of the additional R89,5 billion, more than 60 per cent (R57,3 billion) is allocated to provinces and local government.

Recognising the central role played by professional staff in the delivery of quality health care, education and welfare services, additional allocations to provinces will cover the cost of hiring more staff in these sectors, and improving conditions of service. The funds also make provision for staff development in critical skills. About R8,8 billion is also allocated to Gauteng as national government's matching contribution to the Gautrain rapid rail link.

Over the medium term, the local government equitable share grows strongly at an average rate of 17,7 per cent, largely due to additional allocations for municipal infrastructure, including the allocations earmarked for the upgrading and construction of stadiums and public transport infrastructure associated with the 2010 FIFA World Cup.

Over 60 per cent of new allocations transfer to provincial and local government

Allocations strengthen skills development, housing, transport and criminal justice

National allocations aim to strengthen a range of government programmes in social development, transport, housing, tourism, skills development and the criminal justice sector. These policy priorities are outlined in Chapter 7.

This chapter outlines the division of revenue between national departments, provinces and municipalities in support of their constitutional responsibilities, powers and functions. The shares of provincial and local revenue are distributed according to transparent formulae that are presented in Annexure E of the *Budget Review*.

Overview of the division of revenue

Total additional allocations of R89,5 billion

The total additional allocations for the 2007 MTEF amount to R89,5 billion, of which R32,3 billion is allocated to national departments, R39,2 billion to provinces and R18,1 billion to municipalities. A total of R13,3 billion of additional funding is provided to the host cities over the 2007 MTEF for the 2010 FIFA World Cup stadiums and related infrastructure, taking the total allocation for the World Cup to R17,4 billion.

Non-interest spending grows by 11,9 per cent over the MTEF

Excluding provision for future contingencies, non-interest spending to be shared between national, provincial and local government is budgeted to grow by an annual average of 11,9 per cent over the MTEF period, from R418,4 billion in 2006/07 to R586,4 billion in 2009/10. The increase is intended to provide further impetus for investment in public services in support of economic growth and social development.

For 2007/08, after setting aside a contingency reserve of R3,0 billion, a total of R478,0 billion is divided between national, provincial and local government. The proposed division of revenue takes account of the revenue-raising capacity of each sphere of government. On average, local government raises about 85 per cent of own revenue through local taxes and user charges, and provinces raise about 3,5 per cent through own revenue, while national departments receive all of their revenue from the fiscus.

Equitable shares and conditional grants are two main funding channels

The two main funding channels from the National Revenue Fund to provinces and local government are equitable shares and conditional grants. The equitable share is a block grant with no conditions that is divided on the basis of an equitable formula described in Annexure E. Conditional grants seek to promote the delivery of specific services according to prescribed national norms.

The 2007 division of revenue reflects a continuing shift of funds to both provincial and local government in support of their constitutional responsibilities.

Table 8.1 Division of nationally raised revenue, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
State debt cost	46 313	48 851	50 912	52 178	52 916	52 967	50 915
Non-interest expenditure	282 396	319 690	365 848	418 436	480 957	541 231	599 386
<i>Percentage increase</i>	15,4%	13,2%	14,4%	14,4%	14,9%	12,5%	10,7%
Total expenditure	328 709	368 541	416 760	470 614	533 873	594 198	650 301
<i>Percentage increase</i>	12,8%	12,1%	13,1%	12,9%	13,4%	11,3%	9,4%
Contingency reserve	–	–	–	–	3 000	8 000	13 000
Division of available funds							
National departments	148 201	168 046	195 384	213 470	240 881	262 092	286 333
Provinces	122 673	137 836	153 782	177 887	202 765	229 296	254 444
Equitable share	107 538	120 885	135 292	150 753	171 271	193 474	215 784
Conditional grants	15 135	16 951	18 490	27 134	31 494	35 822	38 660
Local government	11 521	13 808	16 682	27 079	34 311	41 843	45 608
Equitable share	6 350	7 678	9 643	18 058	20 676	23 775	29 444
Conditional grants	5 171	6 131	7 038	9 021	13 636	18 069	16 164
Total	282 396	319 690	365 848	418 436	477 957	533 231	586 386
<i>Percentage shares</i>							
National departments	52,5%	52,6%	53,4%	51,0%	50,4%	49,2%	48,8%
Provinces	43,4%	43,1%	42,0%	42,5%	42,4%	43,0%	43,4%
Local government	4,1%	4,3%	4,6%	6,5%	7,2%	7,8%	7,8%

Revisions to the provincial budget framework

Through spending on education, health, social development and housing, provinces play a pivotal role in the progressive realisation of socio-economic rights as set out in the Constitution. An additional R39,2 billion is allocated to provinces over the next three years. This consists of R24,6 billion added to the equitable share and R14,6 billion for conditional transfers. This will reinforce programmes that further improve access to and the quality of social services, and support the development of sustainable communities.

Realising the rights in the Constitution

Table 8.2 Total transfers to provinces, 2005/06 – 2009/10

R million	2005/06	2006/07		2007/08	2008/09	2009/10
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	24 776	27 453	27 385	30 832	34 807	38 778
Free State	10 188	11 282	11 223	12 947	14 685	16 363
Gauteng	25 085	32 106	32 494	37 843	42 479	46 288
KwaZulu-Natal	31 859	36 018	36 033	42 091	47 508	53 065
Limpopo	20 008	22 612	22 748	24 843	28 180	31 264
Mpumalanga	10 985	12 435	12 416	15 824	17 996	20 136
Northern Cape	3 708	4 367	4 409	5 619	6 374	7 175
North West	12 427	13 999	14 156	13 973	15 875	17 670
Western Cape	14 744	16 407	17 024	18 791	21 391	23 706
Total	153 782	176 679	177 887	202 765	229 296	254 444

With these revisions, national transfers to provinces increase from R177,9 billion in 2006/07 to R202,8 billion in 2007/08. Over the three-year period provincial transfers are projected to grow at an average annual rate of 12,7 per cent, to R254,4 billion in 2009/10.

National transfers to provinces grow at annual rate of 12,7 per cent

Table 8.2 gives a breakdown of national transfers to provinces. Further details of provincial allocations are contained in Annexure E.

Policy priorities underpinning equitable share revisions

The forward estimates for the provincial equitable share published in last year's *Budget Review* are revised upwards by R3,6 billion in 2007/08, R6,4 billion in 2008/09 and R14,7 billion in 2009/10, resulting in growth of 13,6 per cent between 2006/07 and 2007/08 and 12,7 per cent over the MTEF period.

Social services

Phased salary improvements for teachers and new staff for schools

In support of improved teaching and learning in public schools, government is allocating R8,1 billion for phased salary improvements of school managers, performance-related remuneration for educators, teaching assistants and for hiring of clerical and support staff in schools and district offices. This will ensure that public schools can hire adequate numbers of teachers to attain reasonable learner-to-educator ratios, while giving principals sufficient time to manage their schools. Similarly, the filling of clerical posts will relieve teachers from undertaking administrative work, enabling them to devote more time to teaching.

Additional funding is allocated to meet the cost of educator development in priority areas such as maths and science, grade R and the foundation phase, and to support the education quality improvement programme.

A new salary regime for health professionals

In the health sector, efforts to recruit and retain staff have resulted in an increase of more than 20 000 health professionals over the past four years. Government is allocating a further R4,5 billion for implementation of a new salary dispensation regime for professional health workers and for continuation of the recruitment drive. The new salary structure will be implemented on a phased basis, with priority given to nurses, who constitute the bulk of health professionals.

Allocations to improve emergency medical services

Additional resources will also be directed to strengthening emergency medical services through better communication systems, vehicle replacement, aero-medical services, and training for ambulance assistants. These improvements will gear up capacity in the sector in preparation for the 2010 FIFA World Cup.

Complemented by the allocation for the neighbourhood development partnership grant, increased funding for the housing programme not only provides for the acceleration of housing provision, but also sets a basis for refocusing the programme towards the creation of sustainable and integrated communities.

New funding for social auxiliary workers

Following the shift of the social security grant programme to the national budget a year ago, strengthening welfare services continues to be a provincial priority over the MTEF period. Increased funding is allocated to provinces to hire and train additional social auxiliary workers, and to meet other costs associated with the scaling up of these services.

Provincial economic functions

Additions to the provincial equitable share and conditional grant transfers provide for higher spending on provincial economic services such as maintenance, rehabilitation and construction of roads and government buildings. Within the budget for roads, approximately R2,8 billion in additional funding is targeted at accelerating the expanded public works programme. The aim is to replicate successful public works initiatives such as Zibambele in KwaZulu-Natal and Gundo Lashu in Limpopo.

Additional support for road construction through public works programme

The provincial budget framework also provides allocations for major infrastructure investment projects such as Gautrain, Dube Trade Port and Coega. While some of these large projects are funded jointly by national and provincial government, the treasuries are developing a framework for funding of similar programmes in the period ahead, including a more rigorous and streamlined funding process, drawing on the lessons learnt in successful public private partnerships.

Table 8.3 Provincial equitable shares, 2005/06 – 2009/10

R million	2005/06	2006/07		2007/08	2008/09	2009/10
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	22 326	24 643	24 643	27 074	30 585	34 114
Free State	8 719	9 595	9 595	10 745	12 137	13 536
Gauteng	20 860	23 362	23 362	28 217	31 878	35 556
KwaZulu-Natal	28 502	32 052	32 052	37 067	41 870	46 698
Limpopo	18 463	20 616	20 616	22 340	25 237	28 149
Mpumalanga	10 029	11 227	11 227	14 140	15 972	17 814
Northern Cape	3 142	3 452	3 452	4 598	5 194	5 793
North West	11 151	12 347	12 347	11 973	13 524	15 083
Western Cape	12 100	13 459	13 459	15 118	17 074	19 041
Total	135 292	150 753	150 753	171 271	193 474	215 784

Table 8.3 shows the provincial equitable shares by province. These allocations are determined by a redistributive formula that uses mainly demographic data. For the 2007 Budget, provincial equitable shares are affected by changes to the demarcation of provincial boundaries. From 1 March 2006, provincial boundaries were redrawn to eradicate cross-boundary municipalities. Data used in the formula were realigned to the revised boundaries. An explanation of these changes is set out in part 3 of Annexure E.

Conditional grants to provinces

Conditional grants are revised upward by R2,7 billion, R5,1 billion and R6,9 billion per year over the next three years. This brings total allocations to R31,5 billion in 2007/08, R35,8 billion in 2008/09 and R38,7 billion in 2009/10. Infrastructure grants to provinces receive the largest increases over baseline. A new library services grant is also introduced.

Large increases to support infrastructure development in provinces

In line with improved spending capacity and the need to address infrastructure backlogs, the infrastructure grant to provinces is

allocated an additional R4,3 billion, bringing spending on this grant to R21 billion over the next three years. About 70 per cent of the additional allocation is earmarked for scaling up the expanded public works programme, focused particularly on rural access roads. It is anticipated that this will create additional work opportunities for about half a million people over the next three years, while contributing to improved access to social services and markets for rural communities.

Total for housing programme allocation of R29,6 billion over three years

Over the medium term, housing delivery will be speeded up. Informal housing settlements are to be upgraded, and municipal and residential development planning is to be streamlined to ensure more sustainable integrated mixed-use housing settlements. The integrated housing and human settlement development grant is allocated an additional R2,7 billion over the next three years, bringing the total housing programme allocation to R29,6 billion over the next three years. By 2009/10 spending on the programme will exceed R11 billion per year.

Infrastructure delivery improvement programme

The infrastructure delivery improvement programme (IDIP) addresses underspending of provincial capital infrastructure budgets. The programme targets poor planning, lack of delivery, management systems and the general lack of skills. IDIP is a partnership between the National Treasury, the Development Bank of Southern Africa, the Department of Public Works and the Construction Industry Development Board. The programme supports improved effectiveness and efficiency of public-sector infrastructure delivery by institutionalising best practice and building capacity to enable departments to deliver on their mandates.

To address chronic underspending of capital budgets, which led to shortages of classrooms, the programme initially focused on the education sector. Due to this intervention, capital spending will improve from 45 per cent of budget in December 2004 to 62 per cent in December 2006 (see below). This is particularly noteworthy considering the significant increases in the infrastructure appropriation during the intervening period.

Total capital expenditure in provincial education budgets

Financial Year	Adjusted appropriation	Quarter 3 Expenditure (as at 31 December)	Quarter 4 Expenditure (as at 31 March)
2004/05	R 2,511,653	45.7%	80.0%
2005/06	R 2,976,725	45.0%	82.4%
2006/07	R 3,488,050	62.3%	Projected to be between 95% & 100%

Source: In-year monitoring system in National Treasury.

Provincial technical assistance teams will be appointed in provincial health, public works and transport departments to address underspending challenges. One of the key successes of the programme has been to align the infrastructure delivery cycle with the MTEF budget cycle to ensure that departmental infrastructure budgets are informed by actual, properly planned and budgeted projects, and that budgets for large multi-year projects are appropriately committed across the duration of the project. As this methodology is applied, it is expected that value for money on infrastructure spending will continue to improve.

Table 8.4 Conditional grants to provinces, 2006/07 – 2009/10

R million	2006/07	2007/08	2008/09	2009/10
Agriculture	401	462	484	530
Agricultural disaster management grant	45	–	–	–
Comprehensive agricultural support programme grant	300	415	435	478
Land care programme grant: poverty relief and infrastructure development	56	47	49	51
Arts and Culture	–	180	338	466
Community library services grant	–	180	338	466
Education	1 713	1 906	2 201	1 501
Further education and training college sector recapitalisation grant	470	595	795	–
HIV and Aids (life skills education) grant	144	158	168	177
National school nutrition programme grant	1 098	1 153	1 238	1 324
Health	10 207	11 321	12 543	13 726
Comprehensive HIV and Aids grant	1 616	1 946	2 235	2 676
Forensic pathology services grant	562	551	467	422
Health professions training and development grant	1 520	1 596	1 676	1 760
Hospital revitalisation grant	1 527	1 907	2 283	2 582
National tertiary services grant	4 981	5 321	5 882	6 286
Housing	6 404	8 238	9 853	11 531
Integrated housing and human settlement development grant	6 404	8 238	9 853	11 531
Land Affairs	8	–	–	–
Land distribution: Alexandra urban renewal project grant	8	–	–	–
National Treasury	4 983	6 164	6 847	7 997
Infrastructure grant to provinces	4 983	6 164	6 847	7 997
Sport and Recreation South Africa	119	194	290	402
Mass sport and recreation participation programme grant	119	194	290	402
Trade and Industry	58	–	–	–
Industrial development zones grant	58	–	–	–
Transport	3 241	3 029	3 266	2 507
Gautrain rapid rail link grant	3 241	3 029	3 266	2 507
Total	27 134	31 494	35 822	38 660

The hospital revitalisation grant is allocated an additional R1 billion over the next three years to meet higher-than-expected costs, accelerate construction of the 26 hospitals now underway and to bring additional hospitals into the programme. The grant supports the modernisation of hospital infrastructure and equipment, focusing on upgrading of entire facilities. It includes components to fund improved medical equipment systems, management development and strengthened financial management capacity. The funding arrangements for this grant will be reviewed so that planning and implementation of each project is fully integrated into the provincial budget processes to ensure adequate provision for running costs.

The comprehensive HIV and Aids programme is discussed in Chapter 7. An additional R1,7 billion is added to the programme over the next three years.

26 hospitals are now under construction, with more on the way

Comprehensive HIV and Aids programme is reinforced

New funds for radiology and oncology

An additional R1 billion is provided over the MTEF for radiology and oncology equipment through the national tertiary service grant, which operates in 27 hospitals across the nine provinces, concentrated in urban centres in Gauteng and the Western Cape.

The new community library services grant supports the goal of building a culture of reading, and provides R984 million to transform urban and rural community library infrastructure and services.

Mass sport and recreation gets a R312 million boost

An additional R312 million is allocated to the mass sport and recreation participation programme to develop grassroots club structures that foster public participation in sports and recreation, leaving a legacy beyond 2010. The grant is allocated R886 million to promote mass participation in sports in townships and rural areas.

Table 8.4 sets out the conditional grants to provinces over the MTEF period. Annexure E contains detailed explanations of each grant.

Consolidated provincial budget estimates**Provincial budgets to be tabled after national budget**

Preliminary provincial budgets, summarised in Table 8.5, are in line with the policy priorities presented in the 2006 *Medium Term Budget Policy Statement*. Provinces will table their budgets, highlighting their medium-term priorities, in the two weeks following the tabling of the national budget. Thereafter, provincial departments will table their strategic and annual performance plans, detailing measurable objectives and showing how these priorities are to be achieved.

Table 8.5 Consolidated provincial expenditure according to function, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
Education	60 986	65 580	72 972	82 138	90 273	100 844	110 958
Health	36 361	39 823	46 270	52 688	58 332	64 044	70 680
Welfare	3 226	3 655	4 222	5 259	6 561	7 895	8 848
Housing and community development	8 450	8 807	9 811	12 019	14 534	16 797	18 997
Public works, roads and transport	9 072	9 183	10 529	12 552	13 430	14 819	16 782
Other functions	13 764	14 907	17 376	21 508	27 410	31 437	33 551
Total expenditure	131 858	141 954	161 180	186 164	210 540	235 837	259 817
Total revenue	128 984	144 076	161 156	185 950	210 258	237 178	262 692
Budget balance¹	-2 874	2 123	-23	-214	-282	1 342	2 874
Economic classification							
Current payments	105 601	113 746	127 935	142 833	161 004	178 827	197 198
<i>Of which compensation</i>	80 719	87 513	95 128	105 182	118 628	130 051	141 790
Transfers and subsidies	16 610	18 012	20 654	28 309	30 588	35 089	38 679
Payments for capital assets	9 647	10 196	12 591	15 021	18 948	21 921	23 941
<i>Percentage shares of total expenditure</i>							
Social services	76,3%	76,8%	76,6%	75,2%	73,7%	73,3%	73,3%
Other functions ²	23,7%	23,2%	23,4%	24,8%	26,3%	26,7%	26,7%

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

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

Spending by provinces, taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, is expected to be R24,4 billion or 13,1 per cent higher in 2007/08. Spending is budgeted to grow by 11,8 per cent annually over the next three years, reaching R259,8 billion by 2009/10. Trends in key areas include the following:

Spending by provinces is expected to be 13,1 per cent higher in 2007/08

- Spending in both *education* and *health* grows by about 10,5 per cent a year.
- *Social development* spending grows sharply, from R5,3 billion in 2006/07 to R8,8 billion in 2009/10 to support the implementation of new social welfare legislation and improved access to services.
- Provinces plan to spend R64,8 billion on *capital assets* in roads, health, education, and agriculture over the next three years, with an increasing focus on programmes that lend themselves to employment creation and economic growth.
- *Personnel spending* is set to grow over the medium term as funding for health and education personnel is stepped up.

Revisions to the local government budget framework

The national budget framework adds R18,1 billion to the local government budget framework over the MTEF to allow municipalities to speed up service delivery and enhance the quality of services; and to position the host cities to meet their obligations for the 2010 FIFA World Cup. The revisions contribute to robust growth of 19 per cent per year in national transfers to local government, from R27,1 billion in 2006/07 to R45,6 billion by 2009/10.

Increases in the local government share of nationally raised revenue largely relate to allocations to host cities for the 2010 FIFA World Cup for the construction and refurbishment of stadiums, and the rehabilitation and upgrading of transport and other municipal infrastructure in the vicinity of the stadiums.

Preparing for 2010 in local government

Table 8.6 Transfers to local government: revisions to baseline, 2007/08 – 2009/10

R million	2007/08	2008/09	2009/10
	Medium-term estimates		
Equitable share	600	1 000	3 400
Infrastructure transfers	4 161	6 068	5 177
Direct transfers	3 711	5 318	4 027
Municipal infrastructure grant (Bucket eradication programme)	400	–	–
National Electrification Programme	61	138	402
Public transport infrastructure and systems grant	550	1 380	2 325
2010 FIFA World Cup stadiums development grant	2 700	3 800	1 300
Indirect transfers	450	750	1 150
Bulk infrastructure	300	450	650
Backlogs in the electrification of clinics and schools	45	90	150
Backlogs in water and sanitation at clinics and schools	105	210	350
Total	4 761	7 068	8 577

Table 8.7 National transfers to local government, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
Equitable share	6 350	7 678	9 643	18 058	20 676	23 775	29 444
<i>of which</i>							
<i>RSC/JSB replacement grant</i>	–	–	–	7 000	8 045	9 045	10 107
Water and sanitation operating subsidy: direct transfer	273	133	165	300	550	600	462
Equitable share and related	6 623	7 811	9 808	18 358	21 226	24 375	29 906
Infrastructure transfers	5 715	6 936	8 053	9 265	14 303	19 550	18 266
Capacity building transfers	856	768	654	844	749	400	400
Total	13 194	15 515	18 515	28 466	36 278	44 325	48 572
Growth rates							
<i>Equitable share and related</i>		20,9%	25,6%	87,3%	14,5%	15,0%	23,8%
<i>Infrastructure transfers</i>		21,4%	16,1%	15,0%	54,4%	36,7%	-6,6%
<i>Capacity building transfers</i>		-10,2%	-14,9%	29,1%	-11,3%	-46,6%	0,0%

Neighbourhood development partnership grant aims to unleash potential

Following a year of preparatory work, municipalities now have a range of projects that will be supported under the auspices of the neighbourhood development partnership grant, which has two components: a technical assistance component and project funding transfers. Over the next three years, the technical assistance component of the grant will support municipalities in identifying new projects in targeted areas where improvements in the municipal infrastructure have a potential to attract private capital into historically disadvantaged areas. The aim is to release the economic potential of townships while simultaneously improving access to government services in these areas. This grant is allocated R3,7 billion over the three-year spending period.

New grant for bulk water services

The new water services bulk infrastructure grant is introduced in this Budget. It is government's response to the need to scale up bulk water supplies to enable local municipalities to connect more households to their water and sanitation systems. It is introduced at R300 million in 2007/08, and will more than double to R650 million by 2009/10.

The equitable share

Stepped-up support for provision of free basic services

The local government equitable share is allocated an additional R5 billion over the next three years, growing from R18,1 billion in 2006/07 to 29,4 billion in 2009/10. Excluding the RSC levy replacement component, the local government equitable share grows at an average annual rate of 20,5 per cent per year over the MTEF. This represents a significant stepping up of national government's contribution to the cost of providing free basic services to qualifying households.

Electricity, water and sanitation backlogs in schools and clinics

Over and above the provision for regional bulk infrastructure, government is working to alleviate electricity, water and sanitation backlogs in schools and clinics. The Department of Water Affairs and Forestry and the Department of Minerals and Energy will, through the relevant municipality, roll out bulk electricity and water and sanitation to affected schools and clinics. Over the next three years, R950 million is allocated to municipalities for bulk infrastructure.

The local government equitable share formula is used to divide this allocation between the 283 municipalities. Annexure E provides further details on the structure of the formula and the data that underpins it.

Infrastructure transfers to local government

The 2007 Budget allocates an additional R15,4 billion for infrastructure development in local government. Over the MTEF period national government will transfer R55,3 billion to municipalities through various earmarked grants to ensure that the necessary municipal infrastructure is in place to deliver basic services, and to support host cities in meeting their 2010 FIFA World Cup obligations.

Allocations provide support for basic service delivery

The largest infrastructure transfers – R24,7 billion over the next three years – are channelled through the municipal infrastructure grant. This grant augments municipal own resources and places municipalities in a better position to provide infrastructure for rolling out basic services. In addition, the grant seeks to stimulate local economic development and job creation through labour-based infrastructure methods as prescribed by the expanded public works programme.

Additional funding for municipal infrastructure grant

Table 8.8 Infrastructure transfers to local government, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
Direct transfers¹	4 102	5 299	6 286	7 931	12 390	17 119	15 302
Municipal infrastructure grant	2 442	4 481	5 436	6 756	7 549	8 053	9 130
National Electrification Programme	245	196	297	355	468	596	897
Implementation of water service projects	1 022	208	–	–	–	–	–
Disaster relief	–	280	311	–	–	–	–
Poverty relief funds	393	134	–	–	–	–	–
Public transport infrastructure and systems grant	–	–	242	170	1 174	3 170	2 325
Neighbourhood development partnership grant	–	–	–	50	500	1 500	1 650
2010 FIFA World Cup stadiums development grant	–	–	–	600	2 700	3 800	1 300
Indirect transfers²	1 613	1 638	1 767	1 333	1 913	2 431	2 964
Water and sanitation operating subsidy	817	819	904	440	490	531	393
National Electrification Programme	796	819	863	893	973	1 151	1 421
Bulk infrastructure	–	–	–	–	300	450	650
Backlogs in water and sanitation at clinics and schools	–	–	–	–	105	210	350
Backlogs in the electrification of clinics and schools	–	–	–	–	45	90	150
Total	5 715	6 936	8 053	9 265	14 303	19 550	18 266

1. Transfers made directly to municipalities

2. In-kind transfers to municipalities

Neighbourhood development partnership grant

The neighbourhood development partnership grant fund provides financial assistance to municipalities for partnership-based community and commercial infrastructure in townships and informal settlements. Successful municipalities seek to leverage increased private-sector investment by providing opportunities for retail, mixed-income housing, manufacturing and other commercial developments in township nodes. The emphasis is on precinct, town centre and high street development projects with an estimated project value of over R9,2 billion over the next decade. The grant supports the creation of high-quality developments that aim to overcome the spatial and economic distortions endemic to townships. A key principle is to retain and increase buying power within townships, and create environments that improve the quality of life and attract private-sector investment.

To date, technical assistance totalling R50 million has been allocated for redesigning and upgrading of existing and emerging township town centres and main streets, in Bara Central in Soweto (Johannesburg), Njoli Square in kwaZakhele (Nelson Mandela) and Ngangelizwe in Mthatha. Planned interventions in eThekweni Bridge City and KwaMashu town centre will improve transport and employment accessibility, enhance community infrastructure, upgrade the urban environment and provide additional job opportunities for residents of Inanda, Ntuzuma and KwaMashu. Tshwane and Ekurhuleni municipalities will use the grant to identify nodes in townships and informal settlements, and put in place long-term programmes with the grant providing a meaningful kick-start to the implementation of prioritised nodes in the two cities.

The neighbourhood development partnership grant has also highlighted local investment opportunities in smaller township areas such as Mphophomeni in Umngeni, Nkowankowa in Tzaneen and Ndwedwe.

*Government to spend
R6 billion on national
electrification
programme over MTEF*

In line with the objective to eradicate electricity backlogs, government plans to spend R6 billion over the next three years on the national electrification programme. Of this amount, R2 billion will be spent by municipalities directly and R3,8 billion by Eskom on behalf of municipalities

2010 FIFA World Cup-related funding

The public transport infrastructure grant provides R1,2 billion in 2007/08, R3,2 billion in 2008/09 and R2,3 billion in 2009/10 to accelerate planning; and to establish, construct and improve new and existing public transport infrastructure and systems. This includes R1,1 billion for commuter bus and rail transport.

*Targeted support for
2010 host cities*

The 2010 FIFA World Cup stadiums development grant provides R8,4 billion for the design and construction of new stadiums and the upgrading of existing ones in 2010 host cities. Municipalities are required to plan and budget for construction and rehabilitation of soccer stadiums, taking into account their own revenue potential along with allocations from national government. This will ensure that affordable stadiums are constructed to FIFA standards using the available resources.

To date R600 million has been transferred for construction and renovation of stadiums. Ellis Park, Prince Alfred Park, Vodacom Park, Royal Bafokeng and Loftus Versfeld stadiums are expected to be completed for the Confederations Cup in September 2009.

Table 8.9 Funding for 2010 World Cup, 2005/06 – 2009/10

R million	2005/06	2006/07	2007/08	2008/09	2009/10	Total
2010 FIFA World Cup transport infrastructure-related allocations						
Tshwane	13	11	105	400	165	694
Johannesburg	107	184	329	540	160	1 320
Cape Town	8	120	230	358	50	766
Mangaung	23	30	25	220	–	298
Rustenburg	4	–	15	50	–	69
Polokwane	4	10	40	125	–	179
eThekwini	23	12	125	558	133	851
Nelson Mandela	54	69	132	265	–	520
Mbombela	2	1	55	154	–	212
SANRAL	–	–	130	100	200	430
SA Rail Commuter Corporation	–	180	476	210	450	1 316
Cross Border Road Transport Agency	–	1	–	–	–	1
Bus rapid transit systems and municipal busses	–	–	–	500	1 817	2 317
Monitoring and Evaluation (National Department of Transport)	–	–	20	20	25	65
Total	238	618	1 682	3 500	3 000	9 038
2010 FIFA World Cup stadiums development grant						
Green Point (Cape Town)		98	434	947	451	1 930
Kings Park (eThekwini)		109	392	847	452	1 800
Soccer City (Johannesburg)		98	339	696	397	1 530
Ellis Park (Johannesburg)		4	146	79	–	229
Vodacaom Park (Mangaung)		4	106	110	–	220
Mbombela		88	390	377	–	855
Prince Alfred Park (Nelson Mandela)		110	435	350	–	895
Peter Mokaba (Polokwane)		81	333	282	–	696
Royal Bafokeng (Rustenburg)		4	72	71	–	147
Loftus Versveld (Tshwane)		4	53	41	–	98
Total		600	2 700	3 800	1 300	8 400

Capacity-building transfers to local government

Developing municipal capability for sustained delivery of quality services remains a government priority. The capacity-building grants help municipalities to build management, planning, technical, budgeting and financial management skills. Government plans to spend R1,4 billion to modernise local government budgeting and financial management systems and to improve compliance with the requirements of the Municipal Financial Management Act (2003). In addition, R742 million is allocated for the Siyenza Manje programme.

Siyenza Manje builds management, planning and technical skills

Table 8.10 Capacity-building transfers to local government, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
Direct transfers¹	796	699	588	790	695	350	400
Municipal systems improvement grant	151	182	200	200	200	200	200
Restructuring grant	494	388	255	445	350	–	–
Financial management grant: Municipalities	151	129	133	145	145	150	200
Indirect transfers²	60	69	66	53	53	50	–
Financial management grant: DBSA	60	69	66	53	53	50	–
Total	856	768	654	844	749	400	400

1. Transfers made directly to municipalities

2. In-kind transfers to municipalities

Budgeting and performance management

Stepping up performance management in government

Improvements in the budget process in provinces and municipalities are the focus of reform initiatives closely tied to the broader challenge of enhancing performance management across government. Under the auspices of the Policy Coordination and Advisory Services in the Presidency, a framework has been developed for government-wide monitoring and evaluation, aimed at linking high-level social and economic development objectives with practical measures of service delivery and performance of government programmes.

Siyenza Manje

To develop skills in engineering, planning and financial management within municipalities, the Development Bank of South Africa has initiated Siyenza Manje, which translates to “we are doing it now”. In addition to R600 million provided by the bank, government is contributing R225,2 million, R246,8 million and R269,2 million over the MTEF. Siyenza Manje’s immediate target is the eradication of the bucket system. A total of 144 professionals and 30 interns will be deployed in municipalities as part of this initiative.

Siyenza Manje’s targets are set out in the table below.

Siyenza Manje performance targets and development impact measures

Performance measure	Target		
	2007/08	2008/09	2009/10
MIG & other infrastructure grants expenditure	R2 Billion	R3 Billion	R5 Billion
Number of projects implemented	200	400	500
Number of households with access to water	150 000	300 000	450 000
Number of households with access to sanitation	115 000	250 000	350 000
Number of institutions/Municipalities that benefit from DF institutional capacity building initiatives	60	80	100
Number of people trained on job - finance	120	160	250
Number of people trained on job - technical	120	160	250
Number of finance and infrastructure management systems developed	30	40	50
Number of jobs created	10 000	20 000	30 000

As an integral part of this initiative, the National Treasury and the Auditor-General have developed a programme performance information framework for strengthening systems across national, provincial and local government, aimed at:

**Framework promotes
accountability to
Parliament**

- Clarifying standards for performance information and supporting regular audits of non-financial information where appropriate.
- Improving the structures, systems and processes required to manage performance information.
- Defining roles and responsibility for performance information.
- Promoting accountability to Parliament, provincial legislatures, municipal councils and the public through timely, accessible and accurate publication of performance information.

Implementation of this framework over the period ahead, for specific sectors, programmes and government activities, will contribute to further strengthening of the information base on which budgets are constructed and their implementation monitored.

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