

Provincial and local government finances

Provincial and local governments play a key role in the progressive realisation of rights through the delivery of basic social and municipal services. The medium term expenditure framework provides for significant real growth in provincial and local government budgets, which collectively will receive about 61 per cent of additional resources allocated.

This additional R46 billion will strengthen the ability of provinces and municipalities to improve access to public services; address vulnerability and inequality through proper targeting of services and improved governance; increase investment in communities to ensure sustainable livelihoods; and develop the skills needed for the economy through enhanced further education and training. Particular stress is placed on strengthening education, health and social development.

Introduction

The 2006 MTEF builds on the 2005 Budget by placing further emphasis on key areas of social services, and the rollout of economic and community infrastructure. Over the next three years, additional spending of R46 billion in provinces is intended to reinforce key social and economic functions. Further spending of R2 billion will allow municipalities to substantially improve community infrastructure and the quality of services, and at the same time to expand the provision of free basic services (water, sanitation and electricity). Local community infrastructure and local transport capacity will receive further support by funding of R6 billion that has yet to be allocated. An additional R24 billion is accommodated in the budget framework to replace the RSC levies.

Additional spending of R46 billion in provinces and municipalities

Funding provincial government

Transfers to provinces from nationally raised revenue will grow by 6,3 per cent in real terms over the MTEF period, from a

revised R209,8 billion in 2005/06 to R290 billion in 2008/09. Table 6.1 shows that of the R46 billion added to the provincial share over the MTEF, R30,9 billion goes to the equitable share, while R15,1 billion is added to conditional grants.

Table 6.1 Revision to provincial budget framework, 2005/06 – 2008/09

R million	2005/06 Revised	2006/07 Medium term estimates	2007/08 Medium term estimates	2008/09 Medium term estimates	Total revisions
Total provincial allocation	209 779	238 087	262 809	290 049	
Equitable share	135 356	150 746	167 694	187 092	
Conditional grants	74 424	87 341	95 116	102 957	
Changes to baseline					
Equitable share	–	3 511	9 517	17 853	30 881
Conditional grants	507	5 081	4 835	5 203	15 119
Total	507	8 592	14 352	23 056	46 000

Provincial equitable share

The R30,9 billion added to the provincial equitable share over the next three years revises the forward estimates upwards to R150,7 billion in 2006/07, R167,7 billion in 2007/08 and R187,1 billion in 2008/09. In real terms the provincial equitable share is projected to grow by an average of 5,2 per cent a year over the next three years.

Additional allocations for education, health and social development

Up to R20 billion of the R30,9 billion added to the provincial equitable share is for the expansion of education, health and social development.

- In education, the aim is to reduce backlogs in school equipment, expand early childhood development (Grade R), provide for teacher development and human resource management systems, extend the implementation of the new curriculum statement to grades 10–12, implement revised norms and standards for school funding, strengthen special schools, and expand information management systems.
- The health care priorities are to enhance human resource management and recruit health professionals, expand emergency medical services and implement a new national ambulance services model, expand primary health care, improve services in rural areas, and modernise tertiary services.
- The delivery of social welfare services is critical to the development of sustainable communities. The increased allocations allow provinces to expand social welfare services, in particular gearing up for the phased implementation of the Children's Bill, the Older Persons Bill and the Child Justice Bill.

Of the revisions to the provincial equitable share, up to R2,6 billion is set aside for other provincial functions, including the rehabilitation and maintenance of provincial roads, the expansion of support for agriculture and bolstering provincial tourism.

New allocations for roads, agriculture and tourism

Some R4,2 billion is added to the equitable share for the social services components of the expanded public works programme. The funding will cater for the expansion of existing programmes (community health workers, home/community based care and early childhood development) and provide for training of practitioners, stipends and the provision of materials, food and basic health care.

Government's extension of medical scheme membership within the public service is expected to result in a phased increase in personnel costs, primarily in provinces. Over the next three years, R4,8 billion is set aside to enable provinces to absorb the costs associated with the phased implementation of the Government Employee Medical Scheme (GEMS).

Medical scheme coverage extended to low-income government employees

The equitable share allocation is divided among provinces using an objective redistributive formula. The formula is reviewed and updated every year with new data, taking into account the recommendations of the FFC. More detail on the formula and Government's response to the FFC's proposals will be published with the Division of Revenue Bill in 2006. Table 6.2 sets out the equitable share allocations for 2005/06 and the 2006 MTEF.

Equitable share divided among provinces using objective formula

Table 6.2 Provincial equitable share allocations, 2005/06 – 2008/09

R million	2005/06 ¹ Revised	2006/07	2007/08 Medium term estimates	2008/09
Eastern Cape	22 337	24 643	27 189	30 091
Free State	8 724	9 595	10 567	11 666
Gauteng	20 870	23 362	26 072	29 190
KwaZulu-Natal	28 519	32 052	35 957	40 446
Limpopo	18 468	20 616	22 993	25 726
Mpumalanga	10 034	11 227	12 559	14 086
Northern Cape	3 145	3 452	3 790	4 174
North West	11 155	12 347	13 669	15 175
Western Cape	12 104	13 452	14 898	16 538
Total	135 356	150 746	167 694	187 092

1. The 2005/06 revised baseline includes the Integrated Social Development, and HIV and Aids Grants administered by Social Development and the Integrated Nutrition Programme Grant administered by Health which are phased into the provincial equitable share.

The expansion of resources available to provinces takes into account that strategic projects under the umbrella of Government's accelerated and shared growth initiative will require matching funding from provincial and local sources. The bulk of these projects are in the areas of transportation and industrial infrastructure in geographical areas with high

Provinces will invest in transportation and industrial infrastructure

economic potential. Projects under consideration include the De Hoop dam, industrial development zones such as Coega, and selected roads and rail networks linking provincial economic centres to domestic and international markets.

Joint decision-making and funding will be considered on the strength of each project

Some of these projects will require strong intergovernmental cooperation and joint decision-making between spheres of Government at various stages of their conceptualisation and development. Joint funding arrangements between national, provincial and local government will be explored, together with public-private partnership options, where appropriate.

Conditional grants

Spending on conditional grants grows to R103 billion in 2008/09

After phasing some conditional grants into the equitable share, merging others and introducing new ones, spending on conditional grants is budgeted to grow from R74,4 billion in 2005/06 to R103 billion in 2008/09. The growth is mainly due to the upward revision of some conditional grants and the introduction of new ones into the system.

Reform of grants system streamlines delivery

To streamline the delivery of programmes, Government agreed to rationalise the conditional grant system:

- The programmes funded through the Integrated Social Development and HIV and Aids Grants administered by the Department of Social Development, and the Integrated Nutrition Grant administered by the Department of Health, are from 1 April 2006 funded through the provincial equitable share.
- The Human Settlement and Redevelopment Grant, administered by the Department of Housing, is phased into the Integrated Housing and Human Settlement Development Grant to enable Government to deliver on its comprehensive housing strategy in a systematic way.
- The Hospital Management and Quality Improvement Grant, which facilitates management development and financial management capacity, is phased into the Hospital Revitalisation Grant.

Housing programme allocated R23,5 billion over the next three years

The Integrated Housing and Human Settlement and Development Grant is allocated an additional R3,5 billion over baseline over the next three years to implement the comprehensive housing strategy. In total, the housing programme is allocated R23,5 billion over the next three years.

Additional R900 million is allocated for hospital upgrading

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. By 2008/09

45 hospitals should have been fully modernised through this grant.

Forensic Pathology Services, currently administered by the South African Police Service and the Department of Health, shifted from 1 October 2005 to provincial health departments. An adjustment of R94 million is made to the 2005/06 budgets and R1,5 billion is allocated for these services over the next three years.

The FET Recapitalisation Grant funds the overhaul of further education and training colleges and is allocated R1,9 billion over the next three years. The grant will target the rehabilitation of infrastructure, modernisation of equipment and facilities, improved governance and administration, and greater curriculum flexibility.

R1,9 billion to recapitalise FET institutions

More than R7 billion is allocated for strategic economic projects to be implemented through conditional grants to provinces over the next three years.

Over R7 billion allocated for strategic economic projects in provinces

Table 6.3 Conditional grants to provinces, 2005/06 – 2008/09

R million	2005/06 Revised	2006/07	2007/08	2008/09
		Medium term estimates		
Agriculture	410	345	462	484
Agriculture Disaster Management Grant	120	–	–	–
Comprehensive Agriculture Support Programme Grant	250	300	415	435
Land Care Programme Grant	40	45	47	49
Education	1 248	1 743	1 905	2 207
Further Education and Training College Sector	–	500	600	807
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	8 729	10 033	10 721	11 343
Comprehensive HIV and Aids Grant	1 150	1 567	1 646	1 735
Forensic Pathology Services Grant	94	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	6 460	8 118	8 971
Integrated Housing and Human Settlement Development	4 868	6 460	8 118	8 971
Human Settlement and Redevelopment Grant	–	–	–	–
Land Affairs	8	8	–	–
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
Social Development	55 405	61 304	66 404	72 475
Social Assistance Administration Grant	3 382	3 584	3 774	4 130
Social Assistance Transfers Grant	52 023	57 720	62 630	68 345
Sport and Recreation South Africa	24	39	41	44
Mass Sport and Recreation Participation Programme Grant	24	39	41	44
Transport	–	3 291	2 141	1 736
Strategic economic projects	–	3 291	2 141	1 736
Total	74 424	87 341	95 116	102 957

Infrastructure funding to be aligned with growth initiative

Close to R15 billion of provincial infrastructure expenditure will be funded through the Provincial Infrastructure Grant over the next three years. This grant and other infrastructure funding streams may be reviewed to ensure that they are aligned to the accelerated and shared growth initiative. Given the crosscutting nature of some of the projects that may be identified, matching funding between national and provinces will be considered.

Funding local government

Policy priorities and fiscal framework

Local share of nationally raised revenue expands at rapid pace

The local government share of revenue rises from R17,5 billion in the current fiscal year to R33,6 billion in 2008/09. This includes R24 billion to replace loss in revenue arising from the transition from the RSC levies to a new revenue source. The net increase to the local government share is R2 billion to enable municipalities to address backlogs and provide for expanding services.

Of the additional R2 billion allocated over the MTEF period to local government, R1,5 billion is added to the equitable share and R500 million is added to the Municipal Infrastructure Grant (MIG). The additional resources for local government should:

- Increase the rollout of free basic service and basic infrastructure to disadvantaged communities
- Fund job creation and poverty relief initiatives
- Promote sound local governance and administration.

New local government equitable share fully phased in by 2007/08

The increased allocations for local government complement a series of changes to the formulas governing distribution of revenue and organisation of grants. A new local government equitable share formula was introduced for the 2005 MTEF and is being phased in. Its full effects will be realised in 2007/08.

The MIG aims to supplement the capital budgets of municipalities. The consolidation of all infrastructure grants into the MIG will be completed in 2006/07 with the incorporation of the integrated national electrification programme and water services capital grant.

With the abolition of RSC levies on 1 July 2006, national government will compensate municipalities for lost revenue within the national budget framework. Options for alternative tax or revenue sharing arrangements are under consideration.

Regional Electricity Distributors to be set up

In September 2005, Cabinet approved a plan to accelerate the implementation of Regional Electricity Distributors (REDs). In this regard, the six metro REDs need to be set up as soon as possible after the local government elections. Selected municipalities will be given the option to form part of the metro

RED or form a separate RED. The remainder of the country will be covered under a national RED, or a limited number of REDs, incorporating Eskom distributional capacity.

The current division of powers and functions between categories of municipalities is not necessarily aligned to the way in which fiscal powers and functions are divided or shared, especially between Category B (local) and C (district) municipalities. Consequently, certain municipalities have access to their own revenue sources, such as property tax, although the responsibility to perform major functions such as water and sanitation may vest with another category of municipality. A review is under way to improve this alignment.

Division of municipal powers and functions is under review

Transfers to local government

Allocations to municipalities from the national sphere occur mainly through an unconditional equitable share and conditional grants. Conditional grants are allocated for infrastructure and for capacity building and restructuring. The total allocations to local government grow from R17,5 billion in 2005/06 to R33,6 billion in 2008/09. Table 6.4 sets out the allocations to local government.

Table 6.4 Revision to local government allocations, 2005/06 – 2008/09

R million	2005/06 Revised	2006/07	2007/08 Medium term estimates	2008/09
Equitable share and related	10 578	11 505	12 411	13 938
Infrastructure	5 833	7 454	8 301	9 023
Capacity building and restructuring	749	749	749	400
Total local government allocation	17 159	19 708	21 461	23 362
Changes to baseline				
Equitable share and related	–	300	450	700
Infrastructure	297	–	–	500
Municipal Infrastructure Grant	–	–	–	500
Integrated Electrification Programme	55	–	–	–
Public transport infrastructure and systems fund	242	–	–	–
Total changes	297	300	450	1 200
Revised baseline				
Equitable share and related	10 578	11 805	12 861	14 638
Infrastructure	6 130	7 454	8 301	9 523
Capacity building and restructuring	749	749	749	400
Total revised local government baseline (pre-technical adjustment)	17 456	20 008	21 911	24 562
Technical adjustment				
Replacement of RSC levies	–	7 000	8 000	9 000
Total revised local government baseline	17 456	27 008	29 911	33 562

A shift towards greater discretion at local level

Excluding the provision for RSC levies, the equitable share component grows at a real rate of 6,4 per cent a year, from R10,6 billion in 2005/06 to R14,6 billion in 2008/09, boosting the ability of municipalities to fund the provision of free basic services to poor households (water, sanitation and electricity), and to improve governance and administrative systems. The equitable share portion rises to about 43 per cent of total transfers to local government, reflecting a shift towards greater discretion at the local level.

Total infrastructure allocations increase to R9,5 billion by 2008/09

The additional R500 million added to the MIG over the MTEF period represents growth of 3 per cent in real terms. Local government plans to spend R25,3 billion on municipal infrastructure over the next three years. Total infrastructure allocations increase from R6,1 billion in 2005/06 to R9,5 billion by 2008/09.

Capacity-building grants support development of planning, budgeting and financial skills

The capacity-building and restructuring grants support municipalities in developing their planning, budgeting, financial management and technical skills. The capacity-building and restructuring component remains capped at R749 million in the first two years of the MTEF and declines to R400 million in 2008/09, as the Local Government Restructuring Grant is phased into the local government equitable share in 2008/09.

The adjustment budget allocates R241,7 million to the local government's share in the current financial year through the Public Transport Infrastructure and Systems Grant. The funds are for capital projects that are ready for immediate implementation in the 2010 Soccer World Cup host cities. Over the next three years R3,5 billion is allocated for public transport infrastructure throughout the country.