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Division of revenue and medium-term expenditure estimates

Government's key budget priorities are to improve the quality of education and health, step up investment in built environment infrastructure, reduce crime and support rural development. Provinces and municipalities consequently receive a significant share of the additional resources allocated in this budget framework.

The medium-term expenditure framework (MTEF) allocates R678.2 billion across the three spheres of government in 2009/10. This increases to R767.9 billion by 2011/12. The local share of nationally raised revenue grows from 7.7 per cent in 2008/09 to 8.3 per cent by 2011/12, while the provincial share rises from 42.2 per cent to 43.5 per cent by 2011/12.

The proposed allocations aim to strengthen the ability of provinces and municipalities to deliver better-quality services, particularly in poor communities; to invest in and maintain key infrastructure; and to support labour-intensive delivery of services.

■ Division of revenue overview

The proposed MTEF builds on the momentum of rising government spending in recent years. Priority is given to allocating additional resources in areas where there is a clear spending impact or to protect buying power in critical areas of service delivery.

Public spending builds on momentum to deepen programme impact and compensate for inflation

National budget priorities and revisions to national allocations are discussed in Chapter 5. Baseline allocations to national departments are revised upwards by R44.7 billion in 2009/10, R36.2 billion in 2010/11 and R29.8 billion in 2011/12.

Provincial baseline allocations are revised upwards by R51.3 billion over the MTEF to strengthen education, health and welfare services. Allocations for infrastructure, including roads, are also stepped up.

Support for expanded access to potable water, sanitation and electricity

Additional allocations to local government of R8.8 billion support expanded community access to housing, potable water, sanitation, electricity and public transport. The majority of these additions are earmarked for municipal infrastructure and programmes aimed at achieving universal access by 2014, providing free basic services in poor communities and assisting 2010 FIFA World Cup host cities.

Table 6.1 shows the proposed division of revenue for the 2009 Budget.

Table 6.1 Medium-term expenditure framework and division of revenue, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12	2009	Average annual growth 2008/09 – 2011/12
	Revised	Medium-term estimates			MTEF	
National	291 205	346 603	359 711	370 403		8.3%
Provincial	245 646	282 332	307 878	333 751		10.8%
Equitable share	204 010	233 051	256 170	275 934		10.6%
Conditional grants	41 636	49 281	51 707	57 817		11.6%
Local	44 689	49 306	57 808	63 780		12.6%
Equitable share	25 560	30 647	36 810	40 197		16.3%
Conditional grants	19 129	18 660	20 998	23 583		7.2%
Total	581 540	678 241	725 397	767 934		9.7%
Percentage shares						
<i>National</i>	50.1%	51.1%	49.6%	48.2%		
<i>Provincial</i>	42.2%	41.6%	42.4%	43.5%		
<i>Local</i>	7.7%	7.3%	8.0%	8.3%		
Changes to baseline						
National	17 276	44 736	36 231	29 776	110 744	
Provincial	7 570	14 173	14 238	22 880	51 291	
Equitable share	4 633	7 585	9 864	14 849	32 298	
Conditional grants	2 937	6 589	4 374	8 031	18 993	
Local	2 834	1 655	2 076	5 024	8 756	
Equitable share	671	491	614	1 829	2 934	
Conditional grants	2 163	1 164	1 462	3 195	5 822	
Total	27 680	60 565	52 545	57 680	170 790	

Revisions to transfers to provincial and local government in 2008/09

Adjustments include provision for higher inflation

Provinces receive an additional R7.6 billion in the 2008/09 adjustments budget, bringing total transfers to provincial governments to R245.6 billion. Additions to the equitable share include R3.6 billion for inflation adjustments, of which R3 billion is for higher salary increases awarded in 2008. The remainder covers the higher costs of textbooks, medicine and medical equipment, school meals and fuel. The provincial equitable share is increased by R1 billion to help provinces cope with the higher-than-budgeted implementation of the

occupation-specific dispensation for nurses and R50 million to introduce three new vaccines for children.

Provincial conditional grants are increased by R300 million to cater for more people on antiretroviral treatment. The school nutrition programme receives additional resources to feed more children and in response to higher food prices. Provinces also receive R1.1 million to cover the costs of repairing infrastructure damaged in various natural disasters.

Grants increased to expand number of people on antiretroviral treatment

The local government equitable share is increased by R671 million to cover the higher costs of providing free basic electricity to poor households. A further R1.4 billion is allocated to municipalities for 2010 FIFA World Cup stadium projects as a result of escalating costs on several projects.

Funding provincial government

Of the R51.3 billion added to the provincial baseline over the next three years, R32.3 billion is proposed for the provincial equitable share and R19 billion for conditional grants. Transfers to provinces will grow by 10.8 per cent per year, from a revised R245.6 billion in 2008/09 to R333.8 billion in 2011/12.

Provincial equitable share

The provincial equitable share is budgeted to grow by 10.6 per cent annually, from a revised R204 billion in 2008/09 to R276 billion in 2011/12. An adjustment of R17.2 billion is made to the equitable share over the MTEF to protect the real value of civil service incomes and critical programmes targeting the poor, with R15.1 billion for policy adjustments. Robust growth in these allocations provides for the strengthening of social programmes, especially those likely to have a high impact on human development and the quality of life.

Adjustments protect the real value of personnel spending and critical programmes serving the poor

At the time of tabling their budgets, provinces were asked to provide for salary adjustments of 7.5 per cent in 2008/09, but actual increases of 10.5 per cent were awarded. An amount of R3 billion is included in the 2008/09 adjustments budget and R23.2 billion is proposed for the next three years for the carry-through costs of higher salary increases and to provide for additional personnel costs in education and health. This amount includes resources to address cost pressures in the health sector as a result of the implementation of occupation-specific salary scales for nurses, and additional resources to provide doctors and medical specialists with a revised salary scale.

Funding for health services accounts for 3.4 per cent of GDP and 11.8 per cent of consolidated government non-interest expenditure. Despite increased health spending by provinces, a renewed focus is required to reduce maternal and child mortality, HIV and Aids, and TB. Additional resources are added to expand the range of vaccines provided to children and for stepped-up interventions to address the TB epidemic.

Funding for health care accounts for 11.8 per cent of non-interest spending

A part of the additional equitable share allocation aims to ensure that the expansion of social welfare services is accelerated to meet the growing welfare needs of communities. The focus over the medium term is on expanding early childhood development.

The provincial equitable share is also increased to accommodate an extension of no-fee schools.

Education for all: no-fee schools

In line with its commitment to ensure universal access to education, government introduced no-fee schools during 2007. Additional resources are allocated through provincial budgets to expand this programme over the medium term. To implement the policy, schools are ranked into five categories. The schools in the lowest 40 per cent (quintiles 1 and 2) are deemed poor and allow learners to enrol without paying fees. In return, government funds expenses that were previously covered by fees.

For the 2008 school year, provinces will spend just under R3.5 billion to ensure that about 5 million learners in 14 264 schools benefit through this programme. The majority of these learners are in Eastern Cape (1.2 million learners), KwaZulu-Natal (1.1 million) and Limpopo (1 million). Over the medium term, government intends to extend no-fee status to 60 per cent of schools.

Table 6.2 shows the proposed equitable share allocations to each province over the MTEF period. The calculation of the equitable share is determined by an objective redistributive formula published annually in the *Budget Review*. Revisions to the formula this year take into account the data from the 2008 Mid-year Population Estimates, 2008 Education Snap Survey, 2007 General Household Survey, 2006 provincial GDP estimates and the 2005 Income and Expenditure Survey. The adjustments will be phased in over three years.

Table 6.2 Provincial equitable share allocations, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
	Revised		Medium-term estimates	
Eastern Cape	32 113	36 252	39 368	41 887
Free State	12 701	14 359	15 619	16 646
Gauteng	33 833	39 234	43 764	47 826
KwaZulu-Natal	44 250	50 422	55 282	59 394
Limpopo	26 538	30 120	32 889	35 190
Mpumalanga	16 818	19 170	21 024	22 596
Northern Cape	5 465	6 246	6 868	7 401
North West	14 142	16 261	17 989	19 502
Western Cape	18 149	20 987	23 367	25 493
Total	204 010	233 051	256 170	275 934

Conditional grants to provinces

Gauteng receives a loan of R4.2 billion for its contribution to the Gautrain

Conditional grants supplement various programmes partly funded by provinces, such as infrastructure and central hospitals, and support specific programmes. Conditional grants are expected to grow from a revised R41.6 billion in 2008/09 to R57.8 billion in 2011/12. About R12.9 billion or 67.7 per cent of additional conditional allocations are proposed for infrastructure-related grants. An amount of R4.2 billion is for a loan to the Gauteng government for its contribution to the

Gautrain rapid link project. Of the total adjustment of R19 billion, R5.9 billion is to provide for inflation adjustments to conditional grants and R13.1 billion for policy adjustments. Table 6.3 shows the revisions to provincial conditional grant allocations.

The *infrastructure grant to provinces* is revised upwards by R4.1 billion to address school infrastructure needs, including extending grade R infrastructure, upgrading schools for learners with special needs, the construction of school libraries, laboratories, sports fields and increased maintenance.

The *national school nutrition programme* aims to ensure that the poorest learners have at least one meal each school day and is allocated an additional R4 billion over the medium term.

The national school nutrition programme is enhanced

An additional R728 million is recommended for the *hospital revitalisation programme* to compensate for the effects of inflation and ensure that hospitals are appropriately equipped and modernised.

Table 6.3 Revision to provincial conditional grant allocations, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	2009 MTEF
	Medium-term estimates			Total revisions
Agriculture	137	305	527	969
Comprehensive agriculture support programme grant	137	305	527	969
Education	583	1 322	2 097	4 002
National school nutrition programme grant	583	1 322	2 097	4 002
Health	404	685	804	1 893
Comprehensive HIV and Aids grant	200	325	407	932
Hospital revitalisation grant	124	265	339	728
National tertiary services grant	81	95	58	233
Housing	711	804	2 146	3 662
Integrated housing and human settlement development grant	711	804	2 146	3 662
National Treasury	4 653	1 234	2 456	8 343
Infrastructure grant to provinces	453	1 234	2 456	4 143
Gautrain rapid rail link loan	4 200	–	–	4 200
Transport	100	23	–	124
Gautrain rapid rail link	100	23	–	124
Total	6 589	4 374	8 031	18 993

An amount of R932 million is added to the *comprehensive HIV and Aids grant*, bringing the total planned spending on this programme to R12.4 billion over the medium term.

The *national tertiary services grant* is allocated an additional R233 million to deal with inflation-related increases on goods and services purchased in tertiary hospitals.

To expand the provision of agricultural support services to ensure food security, R969 million is added to the *comprehensive agricultural support programme*.

A boost for agricultural support to ensure food security

Between 1994/95 and 2007/08, government spent about R49 billion on housing grants, as a result of which about 2.6 million houses were built or were under construction. Despite the progress made thus far, there are still about 1.8 million families living in informal dwellings.

The target is to eliminate informal housing settlements by 2014. Increased demand for subsidised housing is fuelled by population growth, the decline in average household size (from 4.5 persons per household in 1996 to 3.9 persons per household in 2007) and rapid urbanisation. The *integrated housing and human settlements grant* is allocated an additional R3.7 billion to speed up housing delivery and to raise the value of the housing subsidy to keep pace with higher inflation, taking the total over the next three years to R44.7 billion.

Table 6.4 Conditional grants to provinces, 2008/09 – 2011/12

R million	2008/09 Revised	2009/10	2010/11	2011/12
		Medium-term estimates		
Agriculture	898	817	1 117	1 387
Agricultural disaster management grant	137	–	–	–
Comprehensive agriculture support programme grant	538	765	1 062	1 329
Ilima / Letsema projects	96	–	–	–
Land care programme grant: poverty relief and infrastructure development	127	51	55	58
Arts and Culture	345	441	494	524
Community library services grant	345	441	494	524
Provincial and Local Government	30	–	–	–
Disaster management grant	30	–	–	–
Education	2 915	2 578	3 858	4 785
Education disaster management grant	22	–	–	–
Further education and training college sector recapitalisation grant	795	–	–	–
HIV and Aids (life skills education) grant	171	177	188	199
National school nutrition programme grant	1 927	2 401	3 670	4 586
Health	14 363	15 547	18 034	19 194
Comprehensive HIV and Aids grant	2 885	3 476	4 312	4 633
Forensic pathology services grant	605	492	557	590
Health professions training and development grant	1 679	1 760	1 865	1 977
Hospital revitalisation grant	3 060	3 205	3 902	4 194
National tertiary services grant	6 134	6 614	7 398	7 799
Housing	10 178	12 442	15 027	17 222
Integrated housing and human settlement development grant	10 178	12 442	15 027	17 222
National Treasury	7 384	13 449	11 315	13 091
Infrastructure grant to provinces	7 384	9 249	11 315	13 091
Gautrain rapid rail link loan	–	4 200	–	–
Public Works	889	997	1 096	1 162
Devolution of property rate funds grant to provinces	889	997	1 096	1 162
Sport and Recreation South Africa	294	402	426	452
Mass sport and recreation participation	294	402	426	452
Transport	4 340	2 608	341	–
Gautrain rapid rail link	3 266	2 608	341	–
Overload control grant	9	–	–	–
Sani Pass Roads grant	30	–	–	–
Transport disaster management grant	1 035	–	–	–
Total	41 636	49 281	51 707	57 817

Funding local government

Policy priorities and fiscal framework

Government aims to achieve universal access to municipal services such as water, sanitation and electricity by 2014. Tangible progress has been made in both urban and rural areas. Through the *municipal infrastructure grant*, 835 093 household connections have been made for water and 399 662 for sanitation since 2004.

Considerable success in provision of municipal services to the poor

Government's funding programmes are required to cater for the unique challenges in both urban and rural municipalities. The rapid pace of urbanisation presents new challenges. According to the 2007 Community Survey, the population increased by 8 per cent, from 44.8 million people in 2001 to 48.5 million people in 2007. More than half of the population now resides in the 27 largest municipalities. Much of the new demand for municipal services is from poor households, and their ability to pay for services is limited.

Rapid urbanisation presents new challenges in the funding of municipalities

Over the medium term, an additional R5.4 billion is allocated to municipalities as inflation adjustments to the baseline of grants that support operational and capital expenditure programmes. A further R3.4 billion is allocated for the implementation of national policy priorities for the delivery of infrastructure, electricity demand-side management and 2010 FIFA World Cup preparations.

Of the total additional amount of R8.8 billion:

- R2.9 billion is allocated to the local government equitable share for increased costs of basic services, particularly electricity
- R4.3 billion is earmarked for the *municipal infrastructure grant*
- R835 million is proposed for the *public transport infrastructure and systems grant* to finance an integrated public transport network in large municipalities, including 2010 FIFA World Cup cities
- R497 million is allocated for completion of stadiums and to help host cities with operational requirements for hosting of the 2009 Confederations Cup and the 2010 FIFA World Cup
- R194 million is allocated to the *integrated national electrification programme grant* as an inflation adjustment to the baseline.

Additional funding is also provided for in-kind transfers to municipalities.

- The *integrated national electrification programme*, allocated to Eskom, is adjusted for inflation by R331 million over the MTEF
- The *regional bulk infrastructure grant*, which is administered by the Department of Water Affairs and Forestry, is allocated a further R1 billion over the next three years
- R1.1 billion is allocated to an *electricity demand-side management grant*, to be administered by the Department of Minerals and Energy to promote energy efficiency.

The additional R8.8 billion allocated to local government over the MTEF period results in its share of nationally raised revenue growing from a revised R47.2 billion in 2008/09 to R67.8 billion in 2011/12.

A differentiated approach to municipal funding

The service-delivery challenges facing South Africa's large urban municipalities differ considerably from those of poor rural municipalities. While the large metros are experiencing rapid population growth and strong levels of economic activity, many rural municipalities are burdened with the backlogs resulting from previous funding inequities, high poverty levels and weaker economic activity.

In recognition of these factors, government is working to ensure an appropriately structured system of funding local government.

Reforms introduced in the 2008 Budget direct additional funding to weaker municipalities with limited resources, including changing the *municipal infrastructure grant* formula to ensure a minimum R5 million allocation to all municipalities by 2010/11. It is proposed that in the 2009 Budget, the local government equitable share formula be amended to take greater account of the fiscal capacity constraints in poor municipalities. This measure needs to be supported with efforts to improve institutional capacity.

Integrated planning and financing is required between national, provincial and local government to accelerate the eradication of informal settlements, create new communities that have access to services and transport, and put in place infrastructure that will support economic growth. There is, however, a disjuncture at the planning level: various decisions on the built environment are taken by different spheres of government. For example, provinces make decisions about housing, while municipalities make choices about services that are linked to housing, such as water, sanitation and electricity.

The larger urban municipalities are well placed to achieve integration between built environment services. These municipalities have the capacity to raise finance from internal and external revenue sources to supplement grants and possess sufficient technical capacity to deliver. A mix of appropriate interventions will need to be developed to address the range of service delivery challenges in smaller municipalities.

Local government equitable share

Interim grant replaces RSC levy until replacements are introduced

The interim *RSC levies replacement grant* has been put in place until permanent replacements are introduced, including the phasing-in of the sharing of the general fuel levy for metropolitan municipalities from the 2009 Budget and a permanent grant for district municipalities. The latter will take into account the findings of a policy review being conducted by the Department of Provincial and Local Government. The sharing of the general fuel levy with metros will be set off against *RSC levies replacement grant* allocations.

Equitable share supplements municipal own revenue

The local government equitable share is an integral funding instrument to supplement municipal own revenues for the provision of free basic services to poor households. It also provides supplementary support for viable administrations, good governance and public participation. Excluding the *RSC levies replacement grant* and special support for councillor remuneration, the local government equitable share is budgeted to grow 12.2 per cent a year in real terms, from R16.3 billion in 2008/09 to R26.2 billion in 2011/12.

Table 6.5 Revision to local government allocations, 2008/09 – 2011/12

R million	2008/09 Revised	2009/10	2010/11	2011/12
		Medium-term estimates		
Total local government allocation	47 173	52 354	60 915	67 764
Equitable share and related ¹	26 545	31 502	37 380	40 801
Infrastructure ²	19 732	19 595	22 349	25 853
Capacity-building and other current transfers ²	896	1 258	1 187	1 109
Changes to baseline				
Equitable share and related ¹	795	491	614	1 829
Infrastructure ²	1 983	1 202	1 768	4 149
Capacity-building and other current transfers ²	197	270	414	500
Total	2 976	1 962	2 796	6 478

1. Includes water services operating subsidy grant.

2. Includes indirect transfers to municipalities.

Infrastructure transfers to local government

Infrastructure transfers to local government will amount to R67.8 billion over the next three years. This includes:

- R38.7 billion for the rollout of basic infrastructure in line with a differentiated approach to the funding of large urban cities and largely rural municipalities in the *municipal infrastructure grant*
- R8.2 billion for the electrification of poor households
- R2 billion for stadium refurbishment and construction to enable the host cities to meet 2010 FIFA World Cup requirements
- R12.4 billion for the development of municipal public transport infrastructure and systems, the bulk of which goes to 2010 FIFA World Cup host cities
- R3 billion for the neighbourhood development partnership grant
- R3.1 billion for regional bulk water infrastructure to connect more households to water and sanitation systems
- R500 million to alleviate backlogs in electrification, water and sanitation at schools and clinics.

Capacity-building grants assist municipalities with planning, budgeting, financial management and technical skills. The *financial management grant* and the *municipal systems improvement grant* receive total funding of R1.7 billion. Other current transfers to local government include R718 million for the *2010 FIFA World Cup host city operating grant* and R1.8 billion for the *water services operating subsidy grant*.

Support for improved planning and financial management in municipalities