8

Division of revenue and intergovernmental transfers

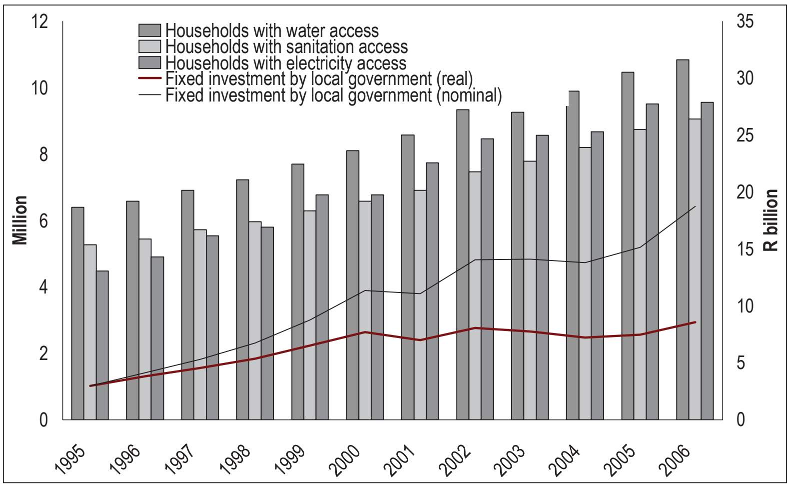
- The 2009 Budget supports economic growth and reinforces social development through sustained growth in infrastructure spending, extending public employment opportunities, and broadening access to social and household services. The division of revenue reflects policy priorities, with strong growth across national, provincial and local government.
- About R47.8 billion is added to the baseline of provinces over the three-year spending period to support improvements in the quality of education and health, including targeted programmes to reduce child mortality. Additional funds are allocated to strengthen rural development and agricultural production.
- The built environment continues to receive strong support in local government allocations to ensure that poor households have access to water, sanitation and electricity. Adjustments are made to enhance the impact of the *municipal infrastructure grant*. Additional funding is provided to ensure readiness for the 2010 FIFA World Cup.

Introduction

Over the past 15 years substantial progress has been made in reducing poverty and improving the living conditions of South Africans through investments in housing, electricity, water and social services. As illustrated in Figure 8.1, the number of households with access to water increased by an annual rate of 4.5 per cent, households with sanitation by 4.6 per cent and households with electricity by 6.7 per cent. Fixed investment by local government grew by an annual average of 9.9 per cent in real terms.

Government has made substantial progress in improving the living conditions of the population

Figure 8.1 Household access to municipal services and local government fixed investment, 1995 - 2006



Sources: Medium-term Policy Review of the Presidency and Reserve Bank data

Increased funding for services that support social wellbeing and economic development

Over the medium-term expenditure framework (MTEF) period, despite a more challenging fiscal environment, government will increase its contribution to services that support social wellbeing and economic development. Provincial baseline allocations are revised upwards by R47.8 billion to bolster education, health, welfare services, housing, roads and rural development. The additional R11.3 billion allocated to municipalities will support expanded community access to potable water, sanitation, electricity and public transport. About R2.2 billion is set aside to step up employment programmes in provinces and municipalities.

This chapter outlines the division of nationally raised revenue between national, provincial and local government, focusing on the spending plans of provinces and municipalities. Broader budget priorities are presented in Chapter 7. Further details of provincial and local government allocations are contained in the Explanatory Memorandum to the Division of Revenue and conditional grant frameworks accompanying the 2009 Division of Revenue Bill, available at www.treasury.gov.za.

Overview of the division of revenue

MTEF makes additional allocations of R161 billion

Excluding a contingency reserve of R38 billion, the MTEF provides for total additional non-interest expenditure of R161 billion. Of this, national government receives R101.5 billion (including R50 billion for Eskom), provinces R47.8 billion and municipalities R11.3 billion. Total non-interest spending grows by 10.5 per cent annually over the period, from R579.6 billion in 2008/09 to R782.1 billion in 2011/12.

Table 8.1 shows the division of revenue for the 2009 Budget, taking account of the revenue-raising capacity and spending responsibilities of each sphere of government. The proposal is informed by the recommendations of the Financial and Fiscal Commission (FFC) tabled in Parliament in June 2008. These recommendations and government's response are discussed in the Explanatory Memorandum to the Division of Revenue.

Table 8.1 Division of nationally raised revenue, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
State debt cost	50 912	52 192	52 877	54 281	55 268	60 140	66 826
Non-interest expenditure	365 772	418 000	488 622	579 626	683 295	732 214	782 145
Percentage increase	*14.4%*	*14.3%*	*16.9%*	*18.6%*	*17.9%*	*7.2%*	*6.8%*
Total expenditure	**416 684**	**470 192**	**541 499**	**633 907**	**738 563**	**792 354**	**848 971**
Percentage increase	*13.1%*	*12.8%*	*15.2%*	*17.1%*	*16.5%*	*7.3%*	*7.1%*
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Division of available funds							
National departments	**192 425**	**210 168**	**242 632**	**288 277**	**343 077**	**352 788**	**361 255**
Provinces	**156 665**	**181 331**	**208 669**	**247 729**	**284 519**	**309 704**	**335 925**
Equitable share	135 292	150 753	172 862	204 010	231 051	253 670	272 934
Conditional grants	21 374	30 578	35 808	43 719	53 468	56 034	62 991
Local government	**16 682**	**26 501**	**37 321**	**43 620**	**49 698**	**57 722**	**64 964**
Equitable share[1]	9 643	18 058	20 676	25 560	23 847	29 268	31 890
Conditional grants	7 038	8 443	16 645	18 060	19 052	20 912	24 543
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Total	**365 772**	**418 000**	**488 622**	**579 626**	**677 295**	**720 214**	**762 145**
Percentage shares							
National departments	52.6%	50.3%	49.7%	49.7%	50.7%	49.0%	47.4%
Provinces	42.8%	43.4%	42.7%	42.7%	42.0%	43.0%	44.1%
Local government	4.6%	6.3%	7.6%	7.5%	7.3%	8.0%	8.5%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) and Joint Services Board (JSB) levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant will only be allocated to district municipalities.

Revisions to the provincial budget framework

Provinces are at the forefront of education, health care, social welfare and housing delivery

In addition to supporting rural development and food security, provinces are at the forefront of the delivery of quality education, health care, social welfare and housing. The additional R47.8 billion for provinces over the medium term is intended to sustain the social progress made in recent years, meet government's broader developmental objectives and mitigate the effects of the current economic downturn on the poor.

Of the additional allocations to provinces, R24.8 billion is added to the provincial equitable share and R23 billion to conditional grants. These additions result in transfers to provinces growing by 10.7 per cent annually, from R247.7 billion in 2008/09 to R335.9 billion in 2011/12. At R284.5 billion in 2009/10, national transfers to provinces are 14.9 per cent higher than in 2008/09. Table 8.2 shows the breakdown of national transfers to provinces.

Table 8.2 Total transfers to provinces, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Eastern Cape	30 858	36 082	36 665	41 341	45 446	48 719
Free State	13 196	15 326	15 708	17 788	19 697	21 121
Gauteng	39 841	45 451	46 455	56 448	54 137	58 878
KwaZulu-Natal	43 223	50 057	51 802	58 818	64 326	69 612
Limpopo	25 253	29 235	30 029	33 981	37 643	40 731
Mpumalanga	16 169	18 841	19 547	22 107	24 205	26 214
Northern Cape	5 933	6 638	6 866	7 971	8 857	9 581
North West	14 568	16 431	16 866	19 282	21 598	23 706
Western Cape	19 629	22 845	23 791	26 785	29 452	32 212
Unallocated	–	–	–	–	4 343	5 153
Total	**208 669**	**240 906**	**247 729**	**284 519**	**309 704**	**335 925**

Priorities underpinning provincial equitable share revisions

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

Revisions of R5.6 billion, R7.4 billion and R11.8 billion result in the provincial equitable share growing by an average 10.2 per cent a year from a revised R204 billion in 2008/09 to R272.9 billion in 2011/12. The revisions protect the real value of spending and support interventions aimed at improving access to and quality of schooling, health care and welfare services.

60 per cent of schools will soon be 'no-fee' schools

The 2009 Budget extends the no-fee schools policy from the poorest 40 per cent of schools to the poorest 60 per cent; reduces the teacher:learner ratio in the poorest 20 per cent of schools; and ensures that public schools cater for learners with disabilities.

In health, the focus is on reducing maternal and child mortality, and combating HIV and Aids and tuberculosis.

New steps to reduce child mortality

There are 18 million children in South Africa. Major causes of child mortality include HIV and Aids, pneumonia, diarrhoea, malnutrition and low birthweight. The Millennium Development Goals, of which South Africa is a signatory, aim to reduce the under-five mortality rate by two-thirds between 1990 and 2015. Interventions that will be accelerated in the period ahead to reach this target include:

- An improved approach to preventing transmission of HIV from mothers to children, using a more effective prevention regimen, alongside strengthened programme coverage and delivery.
- The introduction of vaccines to prevent pneumococcal pneumonia and rotavirus (which causes diarrhoea), as well as the pentavalent vaccine, which combines previous vaccines into one.
- Improving nutritional levels, in part by expanding coverage of the child support grant.
- Raising immunisation coverage above 90 per cent and eliminating measles.
- Maintaining household malaria spraying programmes.
- A new programme, implemented by nurses and community health workers, to provide neonatal support to mothers in their homes during the first 28 days after they have given birth.

Government has successfully increased the number of professionals in public health. As of September 2008, 3 760 doctors, 16 478 nurses, 12 753 other health professionals and 16 610 support personnel had been recruited into the public health service since 2003. To help retain skilled personnel, the occupation-specific dispensation in the health sector will be extended to doctors, pharmacists and other health professionals in 2009/10.

Additional resources to expand early childhood development

Social welfare budgets have grown at an average rate of 19.6 per cent a year over the past four years. This trend continues over the spending period to ensure that services supporting the aged, needy children, people with disabilities and victims of crime are sustained. Additional resources are made available in the outer year to expand social welfare services to meet growing community needs, with a focus on strengthening early childhood development programmes.

Funding for roads and agriculture receives a boost

The equitable share is also revised upwards to support activities that enhance economic development, such as investment in road maintenance and agriculture.

The provincial equitable shares set out in Table 8.3 are determined by means of a redistributive formula based on demographic data. The structure of the formula and the data that underpin it are discussed in detail in the Explanatory Memorandum to the Division of Revenue.

Table 8.3 Provincial equitable shares, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	27 344	31 383	32 132	35 940	38 983	41 431
Free State	10 835	12 413	12 713	14 236	15 466	16 465
Gauteng	28 465	33 064	33 812	38 897	43 336	47 305
KwaZulu-Natal	37 425	43 246	44 224	49 990	54 742	58 748
Limpopo	22 523	25 935	26 545	29 861	32 568	34 807
Mpumalanga	14 264	16 436	16 806	19 005	20 819	22 351
Northern Cape	4 638	5 341	5 465	6 193	6 801	7 320
North West	12 087	13 821	14 144	16 121	17 814	19 290
Western Cape	15 282	17 739	18 170	20 807	23 140	25 217
Total	**172 862**	**199 377**	**204 010**	**231 051**	**253 670**	**272 934**

Conditional grants to provinces

Several new conditional grants were introduced 2008/09

Conditional grant allocations grow from R43.7 billion in 2008/09 to R63 billion in 2011/12. Table 8.4 shows the revisions to provincial conditional grant allocations.

Several new conditional grants were introduced in 2008/09:

- The *Ilima/Letsema projects grant* helps poor farmers to increase production and adopt modern farming methods. This grant is allocated R650 million over the MTEF.
- The *overload control grant* is allocated R21 million over the period for initiatives to reduce overloading by trucks on the road network.
- The *Sani Pass grant* receives R34 million for road infrastructure projects that promote integration and development between South Africa and Lesotho.

Table 8.4 Revision to provincial conditional grants allocations, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	2009 MTEF Total revisions
Agriculture	**197**	**305**	**577**	**1 079**
Agricultural disaster management	60	–	–	**60**
Comprehensive agricultural support programme	87	105	177	**369**
Ilima/letsema projects	50	200	400	**650**
Education	**583**	**1 402**	**2 297**	**4 282**
National school nutrition programme	583	1 322	2 097	**4 002**
Technical secondary schools recapitalisation	–	80	200	**280**
Health	**454**	**685**	**804**	**1 943**
Comprehensive HIV and Aids	200	325	407	**932**
Health disaster response (cholera)	50	–	–	**50**
Hospital revitalisation	124	265	339	**728**
National tertiary services	81	95	58	**233**
Housing	**861**	**804**	**2 146**	**3 812**
Housing disaster relief	150	–	–	**150**
Integrated housing and human settlement development	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 loan	4 200	–	–	**4 200**
Public Works	**151**	**400**	**800**	**1 351**
Expanded public works programme incentive	151	400	800	**1 351**
Transport	**809**	**647**	**720**	**2 176**
Gautrain rapid rail link	325	23	–	**349**
Public transport operations	483	624	720	**1 828**
Total	**7 708**	**5 478**	**9 801**	**22 987**

The 2009 Budget introduces five new grants:

- The *expanded public works programme incentive grant* encourages provinces to increase spending on labour-intensive programmes. The provincial grant is allocated R1.4 billion over the MTEF period to boost job creation in development projects and community services.
- The *public transport operations grant* receives R11.5 billion over the period for subsidisation of commuter bus services.
- The *technical secondary schools recapitalisation grant* is allocated R280 million for equipment and facilities at these schools.
- The *health disaster response (cholera) grant* receives R50 million and the *housing disaster relief grant* receives R150 million to respond to natural disasters.

Existing grants are revised upwards to protect the real value of spending and extend their reach. Table 8.5 sets out the conditional grants to provinces over the medium term.

Infrastructure grant includes R500 million to secure adequate classroom space for Grade R learners

The *infrastructure grant to provinces* is increased by R4.1 billion over the period, including R500 million to ensure that classroom space is available for Grade R learners entering the system. A further R1 billion is made available for schools to upgrade infrastructure, secure facilities, install libraries and laboratories, and increase maintenance. About R620 million is provided to rehabilitate the coal haulage route in Mpumalanga and develop the road network around the Medupi power station in Limpopo.

An additional R4 billion is allocated to the *national school nutrition programme grant* over the MTEF to ensure that the poorest learners can be fed on all school days and to expand the programme to secondary schools.

School nutrition programme is expanded to feed learners on all school days

Table 8.5 Conditional grants to provinces, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
Agriculture	**868**	**877**	**1 117**	**1 437**
Agricultural disaster management	137	60	–	–
Comprehensive agricultural support programme	614	715	862	979
Ilima/letsema projects	66	50	200	400
Land care programme grant: poverty relief and infrastructure development	51	51	55	58
Arts and Culture	**324**	**441**	**494**	**524**
Community library services	324	441	494	524
Education	**2 909**	**2 572**	**3 931**	**4 978**
Education disaster management	22	–	–	–
Further education and training college sector recapitalisation	795	–	–	–
HIV and Aids (life skills education)	165	177	188	199
National school nutrition programme	1 927	2 395	3 663	4 579
Technical secondary schools recapitalisation	–	–	80	200
Health	**14 091**	**15 578**	**18 013**	**19 172**
Comprehensive HIV and Aids	2 885	3 476	4 312	4 633
Forensic pathology services	595	492	557	590
Health disaster response (cholera)	–	50	–	–
Health professions training and development	1 679	1 760	1 865	1 977
Hospital revitalisation	2 798	3 186	3 881	4 172
National tertiary services	6 134	6 614	7 398	7 799
Housing	**9 921**	**12 592**	**15 027**	**17 222**
Housing disaster relief	–	150	–	–
Integrated housing and human settlement development	9 921	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 loan	–	4 200	–	–
Provincial and Local Government	**30**	**–**	**–**	**–**
Internally displaced people management	30	–	–	–
Public Works	**889**	**1 148**	**1 496**	**1 962**
Devolution of property rate funds	889	997	1 096	1 162
Expanded public works programme incentive	–	151	400	800
Sport and Recreation South Africa	**279**	**402**	**426**	**452**
Mass sport and recreation participation programme	279	402	426	452
Transport	**7 024**	**6 409**	**4 215**	**4 153**
Gautrain rapid rail link	3 266	2 833	341	–
Overload control	9	10	11	–
Public transport operations	2 984	3 532	3 863	4 153
Sani Pass roads	30	34	–	–
Transport disaster management	735	–	–	–
Total	**43 719**	**53 468**	**56 034**	**62 991**

HIV and Aids programmes receive additional support

Medium-term adjustments to the health grants include an addition of R728 million to the *hospital revitalisation programme grant*. The *comprehensive HIV and Aids grant* is revised upwards by R932 million to bolster government's HIV and Aids programme.

The *integrated housing and human settlements grant* is allocated an additional R3.7 billion over the period to speed up housing delivery and to raise the value of the housing subsidy to keep pace with inflation. Government plans to spend R44.7 billion on low-income housing over the next three years.

Agricultural support services are being expanded

The *comprehensive agricultural support programme grant* receives an additional R369 million over the MTEF to expand the provision of agricultural support services. An *agriculture disaster management grant* is introduced to help provinces to rehabilitate affected areas.

Consolidated provincial budget estimates

Preliminary provincial budget estimates, summarised in Table 8.6, reflect the policy priorities outlined here and in Chapter 7, and are in line with the 2008 *Medium Term Budget Policy Statement*.

Table 8.6 Consolidated provincial expenditure by function,[1] 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average annual growth	
R million		Outcome		Revised estimate		Medium-term estimates		2008/09–2009/10	2008/09–2011/12
Education	73 874	81 183	90 329	110 115	121 023	134 202	145 925	9.9%	9.8%
Health	45 707	52 171	60 524	73 867	79 310	89 741	96 947	7.4%	9.5%
Social protection	4 239	5 109	6 168	8 676	9 371	10 578	11 563	8.0%	10.0%
Housing and community development	8 699	10 532	12 825	16 557	18 752	21 303	23 493	13.3%	12.4%
Transport	13 927	20 001	22 663	26 756	32 597	27 823	29 693	21.8%	3.5%
Agriculture	4 456	4 697	5 152	6 402	6 866	7 602	8 281	7.3%	9.0%
Other functions	13 160	15 329	19 133	24 386	25 345	26 353	28 111	3.9%	4.9%
Total expenditure	**164 062**	**189 021**	**216 795**	**266 759**	**293 264**	**317 602**	**344 014**	**9.9%**	**8.8%**
Total revenue	**164 044**	**189 334**	**218 034**	**256 886**	**294 181**	**320 011**	**346 763**	**14.5%**	**10.5%**
Budget balance[2]	**-17**	**313**	**1 239**	**-9 873**	**917**	**2 408**	**2 749**		
Economic classification									
Current payments	127 860	142 462	164 001	201 380	217 603	240 519	259 177	8.1%	8.8%
Of which:									
Remuneration	*95 169*	*104 267*	*119 837*	*145 157*	*157 303*	*171 499*	*183 691*	*8.4%*	*8.2%*
Transfers and subsidies	23 438	30 979	35 770	43 971	51 650	49 183	53 380	17.5%	6.7%
Payments for capital assets	12 763	15 580	17 024	21 408	24 011	27 900	31 456	12.2%	13.7%
Percentage shares of total expenditure									
Social services	75.5%	73.3%	72.4%	72.2%	71.5%	73.8%	74.0%		
Other functions[3]	24.5%	26.7%	27.6%	27.8%	28.5%	26.2%	26.0%		

1. *Medium-term estimates are based on draft budgets of provinces as at 31 January 2009 and may differ from the final budgets tabled in February.*
2. *A positive number reflects a surplus and a negative number a deficit.*
3. *Includes housing and community development, transport and agriculture.*

In 2008/09, provinces are projected to run a combined deficit of R9.9 billion. In addition, rising spending on health, in part due to the manner in which the occupation-specific dispensation for nurses was implemented, has resulted in provinces running deficits. These deficits will be covered by provincial governments' cash reserves.

Deficits to be covered by provinces' cash reserves

Taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, spending by provinces is budgeted to grow by an average of 8.8 per cent a year, reaching R344 billion in 2011/12. By 2011/12 provincial spending will be more than double the 2005/06 figure.

By 2011/12, provincial spending will be more than double the 2005/06 level

The following trends emerge from draft provincial budgets:

- Spending by provincial education departments is budgeted to grow 9.8 per cent per year over the period to ensure that the system responds to the educational needs of all learners.
- In line with health priorities, provincial health spending is set to grow 9.5 per cent per year, to R96.9 billion by 2011/12.
- Social development spending, which helps to build sustainable communities and social cohesion, is set to grow from R8.7 billion in 2008/09 to R11.6 billion by 2011/12.
- Provinces plan to spend just over R83 billion on capital assets on roads, health, education and agriculture over the next three years.

Within two weeks after the tabling of the 2009 Budget, provinces will table their own budgets, after which provincial departments will put forward their strategic and annual performance plans, detailing how these budgets will help to achieve government's strategic goals.

Local government budget framework revisions

An additional R11.3 billion is allocated to local government over the medium term to expand service delivery, improve the quality of services and ensure readiness for the 2010 FIFA World Cup.

Ensuring readiness for the 2010 FIFA World Cup

As discussed later in this chapter, the 2009 MTEF builds on previous initiatives to provide vital fiscal support for poorly resourced municipalities, which receive proportionately larger amounts of the local government equitable share. The considerable increase in the *municipal infrastructure grant* over the medium term also provides for steady growth in the minimum allocation to these municipalities.

National transfers, which grow by 14.2 per cent annually from R43.6 billion in 2008/09 to R65 billion by 2011/12, remain an important tool for supporting local operations and governance. Table 8.7 shows the revisions of transfers to local government. Table 8.8 shows national transfers to local government.

Table 8.7 Transfers to local government: revisions to baseline, 2009/10 – 2011/12

	2009/10	2010/11	2011/12	2009 MTEF
	Medium-term estimates			Total
R million				revisions
Equitable share	**491**	**614**	**1 368**	**2 473**
General fuel levy sharing with metros	**–**	**–**	**461**	**461**
Infrastructure transfers	**1 320**	**1 668**	**3 475**	**6 463**
2010 FIFA World Cup stadiums development grant	261	202	–	463
Integrated national electrification programme	36	69	89	194
Public transport and infrastructure grant	93	325	417	835
Municipal infrastructure grant	755	851	2 690	4 295
Electricity demand-side management	175	220	280	675
Current transfers	**221**	**568**	**1 108**	**1 898**
2010 FIFA World Cup host city operating grant	20	14	–	34
Expanded public works programme incentive for municipalities grant	202	554	1 108	1 864
Total	**2 032**	**2 850**	**6 412**	**11 294**

The equitable share

Equitable share grows 17.8 per cent a year to R31.9 billion in 2011/12

The primary funding mechanism to support municipal service delivery is the local government equitable share. Increased support for the equitable share is intended to supplement municipal own-revenue spending to achieve universal access to basic public services. Strong growth in this allocation is sustained over the next three years. The additional R2.5 billion allocation results in the equitable share growing 17.8 per cent a year, from an adjusted R19.5 billion in 2008/09 (excluding RSC levies replacement grant for metros) to R31.9 billion in 2011/12.

Infrastructure transfers to local government

Local government is making steady progress in connecting poor households with basic services

Local government has made considerable progress in connecting poor urban and rural settlements to basic infrastructure and services. Through the *municipal infrastructure grant*, 835 093 household connections have been made for water and 399 662 for sanitation since 2004. Through the integrated national electrification programme, 974 348 households have been connected to the national electricity grid since 2004.

Over and above the R2.5 billion added to the local government equitable share, the 2009 Budget earmarks R8 billion for infrastructure-related spending by municipalities. During the next three years, national government will transfer R67.5 billion to municipalities to support provision of the infrastructure needed to deliver basic services and to enhance electricity demand-side management. Of this amount, R2 billion is set aside for the completion of stadiums for the 2009 Confederations Cup and the 2010 FIFA World Cup. Table 8.8 outlines these allocations.

Support for labour-intensive infrastructure projects as part of expanded public works programme

The *municipal infrastructure grant*, which augments local governments' own resources, is allocated a further R4.3 billion. The main outputs of this programme are enhanced access to water, sanitation, electricity and roads. Wherever possible, these projects are undertaken in a labour-intensive manner.

Table 8.8 National transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07 Outcome	2007/08	2008/09 Revised estimate	2009/10	2010/11 Medium-term estimates	2011/12
Equitable share	9 643	18 058	20 676	25 560	23 847	29 268	31 890
of which							
RSC/JSB replacement grant - district municipalities [1]	–	*7 000*	*8 045*	*9 045*	*3 307*	*3 493*	*3 672*
Water and sanitation operating subsidy: direct transfer	165	386	642	986	979	570	380
Direct transfers [2]	**16 682**	**26 501**	**37 321**	**43 620**	**49 698**	**57 722**	**64 964**
Equitable share and related	9 808	18 444	21 317	26 545	24 825	29 838	32 270
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Infrastructure transfers	6 286	7 447	15 128	16 677	16 864	19 001	22 446
Capacity-building and other current transfers	588	610	875	397	1 209	1 341	1 717
Indirect transfers [3]	**1 753**	**1 436**	**2 027**	**2 267**	**2 879**	**2 843**	**3 598**
Infrastructure transfers	783	943	1 484	1 948	2 744	2 843	3 598
Capacity-building and other current transfers	970	493	543	319	135	–	–
Total	**18 435**	**27 937**	**39 347**	**45 886**	**52 578**	**60 566**	**68 562**
Year-on-year growth							
Equitable share and related		*88.0%*	*15.6%*	*24.5%*	*-6.5%*	*20.2%*	*8.2%*
Infrastructure transfers (direct and indirect)		*18.7%*	*98.0%*	*12.1%*	*5.3%*	*11.4%*	*19.2%*
Capacity-building and other current transfers (direct and indirect)		*-29.2%*	*28.6%*	*-49.5%*	*87.7%*	*-0.3%*	*28.1%*

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of RSC/JSB levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant for district municipalities will remain in place pending the outcome of the local government policy review.

2. Transfer made directly to municipalities.

3. In-kind transfers to municipalities.

Improving South Africa's approach to municipal infrastructure funding

Large-scale migration from rural to urban areas is an international phenomenon. About half the world's population now lives in cities. Similar trends are present in South Africa, where over a third of the population currently resides in the nine largest urban areas. This urban concentration is likely to increase in the years ahead.

According to the 2007 *State of City Finances Report*, South Africa's nine largest cities (six metros, Mangaung, Msunduzi and Buffalo City) contributed 64.5 per cent to national gross value added in 2004. These cities face the dual challenge of keeping pace with demand for infrastructure expansion and maintenance to support economic activity, while serving the needs of growing populations. Appropriate responses by these cities can positively reinforce social development and economic growth for the entire country. Progress in this direction, however, requires a long-term view on planning and budgeting.

From 2009/10, the *municipal infrastructure grant* is amended to take into account the differences between large urban and smaller rural municipalities. For cities, the emphasis is on integrated planning, effective leveraging of municipal resources to eradicate backlogs, improved performance in the development of integrated human settlements and effective asset management in line with the reporting requirements of the Municipal Finance Management Act (MFMA). For rural municipalities the focus is on addressing infrastructure needs for basic services and rural development.

In the 2008/09 adjustments budget, R180 million was allocated to Eskom for the provision of compact fluorescent lamps to poor households. National government is also encouraging municipalities to promote more efficient use of energy through the creation of an *electricity demand-side management grant,* with funding of R980 million over the medium term. Of this amount, R675 million flows directly to municipalities and R305 million is provided to Eskom to conduct projects on their behalf.

The *regional bulk infrastructure grant* is increased by R895 million, bringing total funding to R2.9 billion over the next three years. The additional resources are to enable municipalities to connect more poor communities to bulk water and sanitation infrastructure.

R2.4 billion supports expansion of community infrastructure

The *neighbourhood development partnership grant*, which seeks to develop community infrastructure and create the platform for private-sector investment that improves the quality of life in targeted areas, receives R2.4 billion over the next three years.

Table 8.9 Infrastructure transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Direct transfers	**6 286**	**7 447**	**15 128**	**16 677**	**16 864**	**19 001**	**22 446**
Municipal infrastructure grant	5 436	5 938	8 754	8 620	11 085	12 529	15 069
Public transport infrastructure and systems	242	518	1 174	3 170	2 418	4 290	5 149
National electrification programme	297	391	462	494	933	1 020	1 097
Neighbourhood development partnership grant	–	–	41	80	582	630	840
2010 FIFA World Cup stadiums development	–	600	4 605	4 295	1 661	302	–
Disaster relief	311	–	–	–	–	–	–
Rural transport grant	–	–	–	9	10	10	11
Electricity demand-side management	–	–	–	–	175	220	280
Municipal drought relief grant	–	–	91	9	–	–	–
Indirect transfers[1]	**783**	**943**	**1 484**	**1 948**	**2 744**	**2 843**	**3 598**
Regional bulk infrastructure	–	–	300	450	612	839	1 475
Backlogs in the electrification of clinics and schools	–	–	45	90	150	–	–
Backlogs in water and sanitation at clinics and schools	–	–	105	210	350	–	–
National electrification programme	783	893	973	1 151	1 478	1 769	1 902
Neighbourhood development partnership grant	–	50	61	47	80	125	100
Electricity demand-side management	–	–	–	–	75	110	120
Total	**7 070**	**8 390**	**16 612**	**18 625**	**19 608**	**21 845**	**26 043**

1. In-kind transfers to municipalities.

The *national electrification programme* is budgeted to spend R8.1 billion to install, rehabilitate and refurbish electricity infrastructure at a local level to support sustained supply and eradicate the electrification backlog. Of this amount, R3 billion will be spent by municipalities directly and R5.1 billion by Eskom on their behalf. A further R150 million is made available to complete the electrification of clinics and schools in 2009/10.

Following widespread power cuts in early 2008, government took decisive steps to normalise electricity supply. These included implementing a power-conservation programme with a strong focus on energy efficiency. The programme covers solar water heating, residential load management, energy-efficient motors, the power alert media tool and the rollout of compact fluorescent lamps.

Government is enhancing its power-conservation programme

2010 FIFA World Cup-related funding

The 2010 FIFA World Cup project covers a range of activities, from stadium construction and precinct development to transport, tourism and marketing, health and disaster management, safety and security, and telecommunications. Stadium construction is progressing rapidly, with some projects ahead of schedule. To provide for increased construction costs and improved project management, a further R463 million is allocated to the *2010 FIFA World Cup stadiums construction grant*. By the end of the process, national government will have contributed R11.5 billion to stadium construction.

2010 FIFA World Cup stadium construction is progressing rapidly

Allocations of R508 million in 2009/10 and R210 million in 2010/11 to the *2010 World Cup host city operating grant* will support host city preparations for the Confederations Cup in 2009 and the main event in 2010.

The *public transport infrastructure and systems grant* receives an allocation of R11.9 billion over the next three years to establish, construct and improve new and existing public transport infrastructure and systems in large municipalities, including in the 2010 host cities. The cities of Cape Town and Johannesburg are moving ahead with plans for bus rapid transit systems intended to facilitate greater use of public transport and alleviate road congestion.

Expanded public works programme

Government will continue to increase employment opportunities by extending the expanded public works programme for five years. The scaled-up programme includes two new elements: an incentive/performance-based allocation to support the growth of existing programmes at provincial and municipal level, and the expansion into activities managed by the private sector and civil society. National transfers to local government under the newly created *expanded public works programme incentive for municipalities grant* amount to R1.9 billion over the next three years.

Municipalities showing progress in labour-intensive employment will be eligible for incentives

The incentive will only be provided after municipalities have demonstrated progress by performing above the minimum threshold. Allocations will be based on the targeted number of full-time equivalent jobs for each municipality after the end of each quarter.

Transfers to build capacity in local government

Large-scale support for enhanced municipal financial planning

Improving the ability of municipalities to plan, budget and provide service delivery is a core government priority. The rapid and sustained increase in transfers to boost capacity in local government is intended to ensure that all municipalities have sufficient resources to perform their functions. This has been complemented by improvements to the efficiency and equity of the transfer system to ensure that resources are channelled to the areas of greatest need, and provided in a way that allows municipalities to be held accountable for how the funds are spent.

Government is also stepping up programmes to monitor municipal performance. National and provincial programmes to support improved skills levels and capacity are being aligned under government's flagship Siyenza Manje programme.

Funding supports modernisation of municipal budgeting and improved MFMA compliance

In total, government plans to spend R1.7 billion over the next three years through the *financial management grant* and the *municipal systems improvement grant* to modernise local government budgeting and financial management systems, and to improve compliance with the MFMA. Table 8.10 shows other recurrent transfers to municipalities, including capacity-building grants.

Table 8.10 Capacity building and other current transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate	Medium-term estimates		
Capacity building transfers	**654**	**663**	**928**	**430**	**500**	**577**	**609**
Direct transfers[1]	**588**	**610**	**875**	**380**	**500**	**577**	**609**
Restructuring grant	255	265	530	–	–	–	–
Financial management grant	133	145	145	180	300	365	385
Municipal systems improvement grant	200	200	200	200	200	212	225
Indirect transfers[2]	**66**	**53**	**53**	**50**	**–**	**–**	**–**
Financial management grant	66	53	53	50	–	–	–
Other current transfers	**904**	**440**	**490**	**286**	**845**	**764**	**1 108**
Direct transfers[1]	**–**	**–**	**–**	**17**	**709**	**764**	**1 108**
Internally displaced people management grant	–	–	–	17	–	–	–
2010 FIFA World Cup host city operating grant	–	–	–	–	508	210	–
Expanded public works programme incentive grant for municipalities	–	–	–	–	202	554	1 108
Indirect transfers[2]	**904**	**440**	**490**	**269**	**135**	**–**	**–**
Water and sanitation operating grant	904	440	490	269	135	–	–
Total	**1 558**	**1 103**	**1 418**	**716**	**1 344**	**1 341**	**1 717**

1. Transfers made directly to municipalities.

2. In-kind transfers to municipalities.