GOVERNMENT NOTICE

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DRAFT 2002 DIVISION OF REVENUE BILL AND EXPLANATORY MEMORANDUM

The 2001 Medium Term Budget Policy Statement tabled in Parliament on 30 October 2001 contained the 2002 Budget proposals. Chapter 5 and 6 of that document provided information on the proposed division of revenue between the three spheres of government, including all grants to provincial and local governments for their 2002/03 to 2004/05 budgets.

This document expands on the Medium Term Budget Policy Statement, and provides more detailed information, including the division of grants between provincial and local governments. A draft of the Division of Revenue Bill, together with an explanatory memorandum, is published in this document. These documents have in the past only being published on Budget Day – the earlier publication for the next budget will enable various stakeholders a second opportunity to comment on the various grants.

The main component of the 2002 Division of Revenue Bill is its Schedules, which contain all the allocations. The memorandum provides further information on the various formulae for dividing such grants, and any conditions that may apply. It also outlines the process of consultation to determine this division of revenue, and the response of the national government to proposals presented by the Financial and Fiscal Commission. This is also a legal requirement in terms of the Constitution and related legislation.

This document contains the following four sections:

- The explanatory memorandum which consists of five parts, and required with the Bill
- The Appendix to this memorandum, containing detailed information on every conditional grant
- The Draft Division of Revenue Bill.
- The Schedules of the Bill

Members of Parliament, provincial legislatures, municipal councils, the South African Local Government Association (SALGA) and its provincial associations, the Financial and Fiscal Commission and the public are invited to comment on the four parts of this document: the Bill, its Schedule of Allocations, the Explanatory Memorandum and its Appendix. Comments must be submitted no later than 21 January 2002 in order to be taken into account for the 20 February 2002 Budget. Further participation is also possible during the Parliamentary hearings after the tabling of the Budgets.

All allocations in this document are preliminary, and may change when the Budget is tabled on 20 February 2002. The occasional small differences between the amounts in the memorandum and those in the schedule of the Bill are due to rounding off of figures.

Like with all National Treasury documents, this document and the Medium Term Budget Policy Statement are available on the National Treasury website, www.treasury.gov.za.

DRAFT EXPLANATORY MEMORANDUM ON DIVISION OF REVENUE

(Annexure E of the 2002 Budget Review)

Background

Section 214 of the Constitution requires that every year an Act of Parliament (Division of Revenue Act) determine the equitable division of resources between the three spheres of government, and the horizontal division among provinces. It also spells out the criteria for determining the division of revenue, and the consultations necessary before the enactment of the Division of Revenue Act.

The Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) gives effect to the Constitution by spelling out the process of consultation in enacting the Division of Revenue Bill. It establishes the Budget Council and Budget Forum - the consultative intergovernmental forums for the budget process. Sections 9 and 10(4) of the Act set out the consultation process, including consideration of recommendations of the Financial and Fiscal Commission (FFC) on the equitable division of nationally-raised revenues. Section 10(5) of the Act also requires an explanatory memorandum detailing how the Division of Revenue Bill takes account of each of the matters listed in Section 214(2)(a) to (j) of the Constitution; recommendations of the Financial and Fiscal Commission (FFC); and assumptions and formulae used in arriving at the respective shares contained in schedules 1 and 2 of the Bill.

This document is an initial draft of the explanatory memorandum required in terms of section 10(5) of the Intergovernmental Fiscal Relations Act. Although the Act requires this memorandum to be tabled with the Budget in February 2002, it is published earlier to allow stakeholders a second opportunity to comment on the proposed allocations. This will also allow Parliament more time to assess the division of revenue for the 2002 Medium Term Expenditure Framework (MTEF). This document expands on the Medium Term Budget Policy Statement tabled in Parliament on 30 October 2001.

Part 1 of this memorandum sets out how the FFC's June 2001 recommendations have been considered. Part 2 outlines the fiscal framework that informs the division of resources between the three spheres of government. Part 3 sets out how the Bill and the division of resources take into account the matters listed in Section 214(2)(a) to (j) of the Constitution. Part 4 explains the underlying formula and criteria for the division of the provincial equitable share between provinces, as well as for the division of conditional grants. Part 5 sets out the formula and criteria for dividing the local government equitable share and conditional grants among municipalities.

The Division of Revenue Bill and the underlying allocations represent the culmination of extended in-depth consultation. The Budget Council, made up of the Minister of Finance and the MECs for Finance of all nine provinces, deliberated on these issues at its annual Lekgotla on 6 and 7 July and at other meetings on 14 August, 20 September, and 23 October 2001. Consultations over the local government share allocation involved a Ministerial Task Team appointed by Cabinet, a Joint MinMec held on 2 August, and several technical meetings that included the South African Local Government Association (SALGA) and its provincial associations. All these consultations culminated in a meeting of the Budget Forum, composed of the MECs for Finance plus representatives of SALGA and its provincial associations, on 21 September. Representations by the FFC were also made at the meetings of the Budget Council and Budget Forum. The Ministers' Committee on the Budget, composed of national government Ministers, deliberated on the division of revenue before forwarding it to Cabinet for its consideration. An Extended Cabinet, including Cabinet and Premiers of provinces, was also convened on 26 September 2001 to discuss budget priorities and the division of revenue.

Part 1: Response to the Financial and Fiscal Commission recommendations

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) require the FFC to make recommendations regarding the equitable division of nationally raised revenue. Under the Act, the FFC must submit its recommendations to the Minister of Finance, Parliament and provincial legislatures at least ten months ahead of the financial year or at a later date agreed to between the Minister of Finance and the FFC and in accordance with the Act.

The FFC presented nine proposals related to provinces and thirteen proposals related to local government in *Financial and Fiscal Commission Submission: Division of Revenue 2002-2003* (June 2001).

The nine provincial-related proposals are grouped in the following categories:

- Equitable share (four proposals)
- Provincial own revenue (three proposals)
- Contingency reserve proposal
- Capital grant proposal.

The thirteen proposals related to local governments are grouped in the following categories:

- Equitable share (two proposals)
- Funding basic municipal services proposal
- Municipal powers and functions (four proposals)
- Municipal health services provision (two proposals)
- Infrastructure funding (two proposals)
- Borrowing (two proposals).

The 2001 FFC recommendations are underpinned by the principle of allocating to each sphere sufficient resources to enable it to provide progressively "constitutionally mandated obligations in general and provision of basic services in particular" This should take account of the following:

- The institutional element for each sphere of government
- Other constitutional functions for which norms and standards should also be specified
- Obligations other than constitutional functions, that may be funded through conditional grants, own revenue and borrowing
- The need for infrastructure funding, which should vary according to policy priorities.

National government concurs with the FFC that it is an overall national responsibility to manage economic and fiscal affairs, and determine the tax bases, tax rates, the level and cost of servicing the national debt, and the overall-borrowing requirement. The FFC supports the approach of national government to deduct debt servicing costs and contingency reserves as a first charge on total revenue collections. The FFC also notes that "any changes to the existing equitable share formula should reflect current priorities as determined by a political process". The recommendations reflect a need to address a wider spectrum of fiscal issues than in last year's costed norms proposals.

Government supports the general thrust of the FFC proposals. In fact, the current approach to the division of revenue and the equitable share allocations assumes that each sphere and each province and/or local government should be able to fulfil its constitutional mandate beyond the provision of basic services. It is also informed by variations in fiscal capacities of the different spheres, but given the poor quality of information available on own revenue, other proxies have to be used to take fiscal effort into account.

The current approach to the division of revenue is broadly consistent with aspects of the FFC's 2001 recommendations. Nevertheless, to the extent that the FFC proposals have embedded in them an approach which seeks to translate constitutional provisions on basic services into a "formula based approach" to the division of revenue, the proposed "costed norms" approach should be reviewed in the light of the following:

- A lack of concise definitions of constitutionally mandated basic services associated with each sphere
- The absence of objectively determined norms and standards pertaining to basic services and other constitutional functions
- The unavailability of data that would enable the complete adoption of such an approach.

The *2001 Intergovernmental Fiscal Review* emphasised the extent to which the quality of information still has to improve in the public sector. This process, started in 1997, still has to be expanded to the local government sphere and includes the implementation of new budget formats for municipal budgets and the implementation of the Public Finance Management Act and the coming Municipal Finance Management Bill. While it is not possible to properly measure the cost of services under the current outdated municipal budgeting and financial system until these reforms are implemented, it is recognised that better information on the cost of services is important for further reforms of the fiscal system.

Unless it can be demonstrated that current vertical and horizontal divisions of nationally raised revenue both are inequitable between and within the spheres, it is difficult to justify substantial revisions to the structure of the provincial and local government equitable share formulae. Significant changes to the structure of the formula should be weighed against the potential disruptions, instability and uncertainty to budgetary planning that could arise from sudden shifts in allocations. The process of regularly reviewing – and changing – the formulae when the need arises should however be maintained.

Government agrees with the FFC that provincial and local governments must prioritise their spending (both from their own revenue and equitable share allocation) on constitutionally mandated obligations including the provision of basic services. However, compliance can only be measured once budget reforms are fully implemented. Provincial legislatures and municipal councils have a critical role to play in this respect, aided by the annual Intergovernmental Fiscal Review.

The response of the national government is outlined below. Since most of the FFC's provincial proposals are not new, government's response to them is not significantly different from its own past response. However, the FFC's proposals on local government are new, so the response of the national government below is also its first response.

Provincial Recommendations of the FFC

The four 2001 FFC recommendations for the equitable share allocation reflect an ongoing enquiry into the mechanisms for objectively and consultatively determining allocations to provinces. This approach builds on foundations laid in the 2000 recommendations. This memorandum therefore presents the response to the 2000 recommendations as a precursor to the detailed exposition on this year's recommendations.

Summary of 2000 FFC proposals and Government 's response

The Budget Council and Cabinet considered the 2000 FFC proposals. In recognition of their potential positive analytical contribution to assessing equity of current resource allocation mechanisms and budgets, the FFC has been requested to review its approach in light of the government's response to the 2000 proposals as summarised below:

- The cost-based approach could be a useful analytic tool to assess budgets. However, its technical exposition and application should not by default displace a political process of defining budgetary priorities.
- A large portion of the required information is not currently available. Many of the desired output measures, policy parameters and input costs do not currently exist and are difficult or might not be cost-effective to provide. Further, the weights attached to some of these parameters necessarily involve political judgements.
- The allocation process could become biased in favour of services that can be more easily costed as opposed to those that are more difficult to cost. Comprehensive and cross-sectoral determination and agreement on norms and costs seems necessary and this would be a lengthy and difficult exercise.
- The cost-based approach can create perverse incentives where provinces are able to act in ways that increase or distort costs and funding levels. It is unclear how the approach would distinguish cost differentials due to differences in efficiency from those due to factors beyond control of spending agencies. Little consideration has been given by the FFC on how such 'moral hazards' can be negated or minimised.
- Policy norms used to develop cost estimates could likely be ambitious, yield unaffordable expenditure projections and reinforce cost-raising tendencies.
- The "costed norms approach" could generate unrealistic expectations for additional funds. This could distract from the need by public sector managers to address underlying structural issues that hinder improved service delivery and the effective and equitable use of resources.
- This approach creates the impression that provincial education, health and welfare budgets can be calculated at the national level by formula. Overall, dividing resources among spheres by formula appears irreconcilable with the determination of priorities through a political process and could undermine accountability for outcomes flowing from utilisation of such resources.

Summary of each proposal and Government's response

FFC Equitable Share Proposals

The FFC makes four proposals related to the equitable share formula:

a. A review of the current equitable share formula should start by involving the relevant role players in a study to provide clear definitions of constitutionally mandated basic services and other constitutional obligations.

b. The division of total national revenue available for equitable share allocations (net of debt service obligations and contingency reserves) should take account of:

   - Constitutionally mandated obligations in general and the provision of basic services in particular
   - The institutional element for each sphere of government
   - Other constitutional functions for which norms and standards should also be specified
   - Obligations other than constitutional functions that may be funded through conditional grants, own revenue and borrowing
   - The need for infrastructure funding, which should vary according to policy priorities.

c. The determination of the equitable shares of nationally collected revenue must proceed from the principle that constitutionally mandated basic services and other constitutional obligations should be prioritised and progressively realised.

d. A review of the current equitable share formula should take account of the pending legislation relating to section 228 (Provincial Taxes) of the Constitution and the proposed introduction of a capital grants scheme.

Government Response to FFC Equitable Share Proposals

In light of government concerns about the "costed norms approach" (as outlined above), the FFC has been invited to reconsider its Equitable Share proposals. Government concurs that there is a need to develop more precise information to determine the cost of constitutionally mandated basic services and obligations. Such information will improve budget decision-making and could be an important step toward activity-based costing. In collecting information for the *2001 Intergovernmental Fiscal Review,* the National Treasury noted the lack of any activity-based cost information, even for large spending centers like hospitals. The collection of more decentralised or activity-based information is being prioritised, but will only be fully achieved in the medium-term, as new budget formats and other reforms are implemented.

The National Treasury will undertake a comprehensive and fundamental assessment of the equitable share formula once the 2001 Census results become available, reviewing its structure, components and data and exploring ways to make the formula more forward looking and policy-based for the 2005 MTEF. Government also agrees that the provincial equitable share allocation and formula may have to be reviewed once provinces take up specific taxation powers. The assessment will involve the FFC.

FFC Provincial Own Revenue Proposals

The FFC reiterates three proposals previously made on provincial own revenues:

a. The most feasible form of provincial own revenue source are surcharges on personal income tax and fuel levies, in addition to gambling and betting taxes, which are already dedicated provincial revenue sources.

b. Provinces should be allowed the flexibility to determine their own tax rates within the bands determined by the Minister of Finance.

c. However, for (a) and (b) above to be operational, given the current tax-to-GDP target adopted by government, tax room should be created in order to maintain the tax burden within nationally determined targets.

The FFC proposals relate to provincial own revenues: proposals for specific taxation authorities; provincial flexibility to determine their own tax rates; and creation of tax room within national targets. These proposals are not new, and were previously tabled in 1996. National government responded by referring this matter to the Katz Commission in 1998, and thereafter approved a framework in November 1999 in line with the recommendations of the Budget Council Lekgotla. Subsequently, government finalised a draft *Provincial Tax Regulation Process Bill* that was approved by Cabinet and is currently before Parliament.

The *Provincial Tax Regulation Process Bill* defines procedures by which the power of provinces to impose taxes is regulated. Under these procedures, a province has control over both the initiation of a provincial tax proposal in accordance with the powers granted to it under section 228(1), and its ultimate enactment by the provincial legislature. By the provisions of the Bill, any province wishing to impose a new provincial tax must make a submission to the Minister of Finance and Budget Council. The submission requirements will facilitate the national review of provincial tax proposals by assisting National Treasury, Budget Council, the FFC and other interested parties in reviewing the merits of each provincial taxation proposal. This includes considering the extent to which provinces should have flexibility to determine specific tax rates and whether tax room should be provided within nationally determined taxation targets.

Government Response to FFC Provincial Own Revenue Proposals

The FFC proposals on provincial own revenue are consistent with government's approach. There are however, slight differences on matters of detail. For instance the *Provincial Tax Regulation Process Bill,* which is currently before Parliament, envisions identification of specific taxes and rates as an outcome of a technical and political consultative process. In contrast, the FFC has put forward a list of taxes that provinces should be allowed to impose.

One of the taxes proposed by the FFC is a surcharge on personal income tax, a tax option which extensive collaborative research between National Treasury, the South African Revenue Service and the Katz Commission concluded would not be feasible in the current environment. A number of concerns make a personal income tax surcharge undesirable. These include additional administrative burdens, which may not be cost-effective in terms of revenue yield and exacerbation of inter-provincial inequalities.

National government, the Budget Council, and the Katz Commission concluded that a fuel levy surcharge would be less of an administrative burden and has more potential as a future option if concerns about its potential impacts on the national economy, inflation, and equity can be resolved. In exploring this option, it will also be necessary to give consideration to its implications for provincial fiscal capacity and equitable share allocations.

Given the approach of government, it follows that the three FFC recommendations above will be considered in relation to specific taxation proposals made by provinces.

FFC Contingency Reserves Proposal

The FFC proposes a study to determine a set of objective criteria for the utilisation of contingency reserves.

The Public Finance Management Act (Chapter 4) provides for provincial budgets to be adjusted to provide for "unforeseeable and unavoidable expenditure". Section 6.6 of the Treasury Regulations that implement the PFMA presents criteria that disqualify foreseen expenditure from receiving contingency funds, but do not offer specific criteria to define "unforeseeable and unavoidable" criteria. Currently, contingency reserve amounts are reserved in the expenditure framework to meet such needs for all government spheres and the amounts are approved in an adjustments budget.

The FFC expresses concern that the use of contingency amounts ultimately affects amounts available for equitable share funding and that provinces need financial stability, predictability, and flexibility. Accordingly, it proposes the use of objective criteria in the use of the contingency reserve. Although these concerns are important, the current process for allocating contingency reserve amounts involves substantial consultation.

Government Response to FFC Contingency Reserves Proposal

On the contingency reserve, government has always engaged in an open consultative process for dividing the reserve amounts, taking into account the spread of unforeseeable and unavoidable spending commitment across spheres. National government is not at this point convinced that it is more efficient for every province to have its own contingency fund. It will nonetheless explore with the FFC opportunities to improve mechanisms for provincial contingencies. This will include the use of criteria for allocating unexpended contingency amounts. National Treasury will consult with the FFC and make appropriate recommendations to Budget Council to amend the PFMA and/or its regulations to ensure stability and predictability in the use of contingency reserves.

FFC Capital Grants Proposal

The FFC proposes a capital grants model to be used as a method for allocating such grants.

The model is developed for the education, health and social welfare sectors and can be used to calculate service and province specific capital needs, as well as the relative shares for each social sector in a province. The model could be extended to cover other functions.

The proposed model takes into account provinces' inherited capital backlogs, on-going capital expenditure needs, and depreciation. It starts by determining the efficient and actual capital stocks to establish an initial transition path that indicates ideal needs.

Once ideal needs are calculated, the model would calculate an actual transition path based on actual grants received and actual capital expenditures. If funds were insufficient to meet the ideal needs, the actual transition path would fall below the ideal transition path.

The model assumes a 10-year period, from 2001/02 to 2010/11 over which backlogs would be eliminated, assuming a given level of funding per year. Its data inputs, per province, include actual capital expenditure, efficient capital expenditure, actual capital stock, efficient capital stock for each service and rate of depreciation.

Government Response to FFC Capital Grants Proposal

Government has already moved in the direction proposed by FFC on a separate capital grant. The infrastructure conditional grant was introduced in 2000/01 to boost provincial infrastructure spending and address infrastructure backlogs. The Budget Council endorsed the allocation of the provincial infrastructure grant with a two-part formula: one-half is based on each province's proportion of equitable share funding and the other half on each province's proportion of the backlog component of the equitable share formula. The FFC does not cite specific issues or problems related to this formula.

Given that infrastructure is an important part of the health, education and rural infrastructure variables of the backlog component, infrastructure needs are part of the relevant conditional grants, and also the equitable share grant as well. Accordingly, the potential practical contributions of the FFC proposed capital grants model should be considered as part of a comprehensive assessment of the equitable share formula's structure and data and its relationship to infrastructure needs funded outside the equitable share formula.

The FFC-proposed capital grant model presents some useful ways to analyse infrastructure needs, but national government believes that, in its current form, it would not be practical for allocating infrastructure grants for the reasons listed below.

- The model does not take into account the contributions towards capital expenditure from the province's own and equitable share revenue.
- The model appears to penalise provinces that made past policy choices to maintain and improve their capital assets, and appears to favour provinces that deferred capital spending.
- The proposed model does not incorporate important capital needs in transportation, economic development and other areas. Also, some provinces have funded capital projects that are not related to infrastructure backlogs. Because the model does not take these situations into account, allocations could be distorted.
- The proposed model is dependent on data not available at this time.
- Formula data used to calculate allocations must be independent and safe from manipulation. The proposed model appears to present opportunities for provinces to present data that supports increased levels of funding for them.
- When the FFC model was run for the MTEF by the FFC, infrastructure funding for five of the poorer provinces would be reduced while the two wealthiest provinces would enjoy large increases.

The FFC's local government recommendations

Overview of 2001 FFC proposals

The scope and detail of the FFC's recommendations on local government are largely supported by national government. Progress in local government transformation requires that financial issues receive specific attention in the forthcoming MTEF cycle, and this contribution is substantive and timely. Some proposals are covered in more detail than others. The FFC has provided two further submissions in July 2001 entitled "Division of municipal powers and functions between district and local municipalities", and "Remuneration of municipal councillors".

The national government agrees with and accepts a number of recommendations. Other recommendations require further work to refine proposals into practical recommendations that can be implemented in the medium to long term. A number of outstanding policy issues, such as the division of non-metropolitan municipal powers and functions between district and local councils, require resolution before these final recommendations can be made. The Department of Provincial and Local Government (DPLG) is currently leading a process to finalise these issues.

Summary of each proposal and Government's response

FFC Fiscal framework proposals

The FFC's suggested framework for the local government equitable share involve:

- An articulation of the constitutional requirements for the local government share;
- The definition and identification of basic municipal services and other municipal function;
- The development of the principles that should underlie the funding of basic municipal services, other municipal functions and lifeline tariffs
- An investigation of the implications of these principles for the equitable share formula, funding of districts, funding infrastructure and local government borrowing.

Government Response to FFC Fiscal Framework Proposals

The significance attached to the equitable share mechanism within the fiscal framework for local government is supported, and is already being implemented by Government. The FFC's recommendations regarding infrastructure funding for municipalities, local government borrowing and non-metropolitan powers and functions are also supported. The framework should be expanded to spell out the extent and type of local government tax and tariff authority, as well as the role and type of intergovernmental transfers.

The national government does not, however, accept the FFC's suggestion that it provide a once-off conditional grant for debt restructuring and cash flow improvement. The moral hazard implicit in such an approach has been extensively considered and explicitly rejected by government. There is no particular evidence that debt repayments are a more significant problem for municipalities than, for example, personnel costs. It is thus not evident why intervention is required in this instance.

FFC proposal for local government equitable share

The FFC recommends significant alterations to the equitable share formula in the long term to improve its accuracy in targeting municipalities with limited tax capacity. The FFC also recognises the difficulties in making rapid changes, and thus proposes a phased approach to the introduction of reforms. In the medium term, for the beginning of the 2004/05 MTEF, it proposes that the local government formula consist of a fiscal capacity measure and an estimated cost of basic municipal services (net of cost-recovery) component. Currently, the basket of services for purposes of the equitable share includes water and sanitation, electricity and refuse removal.

Government Response to FFC equitable share proposals

The national government agrees with the FFC that it is important to evaluate the current formula quantitatively, as a basis for any changes, and that the introduction of a tax capacity parameter is desirable. However, the recommendations do not currently consider the sensitivities of the current equitable share formula to specific variables, and thus the likely real effect of proposed changes on the distribution of resources between municipalities. Given that the new municipalities are in a fragile state and require some time to consolidate, and that the information base is poor and not available, Government believes it is premature to make any significant changes to the current formula. In this respect, it is necessary to prioritise the collection of credible and good-quality budget and costing information.

The national government intends, in the interim, to make specific minor adjustments to the current formula, to address problems identified with regard to the funding of the new municipalities.

The FFC proposes that fiscal capacity be incorporated into the local government formula. Currently this is not done, due to data limitations, and the "I" allocations are made on the basis of the population sizes of municipalities. The FFC does not raise the issue of the cost of governance in its initial recommendations. However, it has addressed this question in a subsequent submission entitled "Remuneration of municipal councillors". The National Treasury concurs with the FFC that, like in other spheres of government, and in the interest of responsible fiscal management and accountability, councillor remuneration should be paid from own budgets to retain the integrity of the sphere. The "I" grant component of the equitable share formula will therefore be adjusted from the 2002/03 financial year as a contribution towards the cost of governance in fiscally weak municipalities. Fiscally weak category C municipalities will also be eligible to receive the "I" grant. Municipalities that fail to collect revenue will not be rewarded through equitable share allocations.

The national government does not intend making any significant changes to the "S" component of the equitable share grant. As the equitable share is an unconditional transfer, it is unclear what benefit would be derived from introducing further sets of services into the equitable share formula. However, the principle that such funds be included within this transfer mechanism, as opposed to the development of a conditional grant, is strongly supported.

FFC proposal on defining and costing basic services

The FFC proposals use a number of criteria to determine whether a service is "basic". These include the intergovernmental assignment of services in the Constitution, that a service must be a basic right and essential for life, part of development and a policy priority. The FFC also stresses the importance of local considerations and that some communities might not achieve service access in the short term.

Government Response to FFC proposal on costing basic service

The FFC's discussion on the definition of basic municipal services provides a Constitutional and legal basis for a detailed approach to service delivery, but does not fully resolve problems in definitions of basic services. Government's current approach is to allow for a degree of local discretion within minimum norms and standards. Specifying an extensive list of municipal functions that require funding via the equitable share may provide a perverse incentive for municipalities to expand the functional scope of their activities at the expense of service coverage. In considering this proposal for more basic services, it must be taken into account that the fiscal burden to support local government is already substantial, and that a change of this nature requires careful consideration of the trade-offs. The national government thus recommends that the FFC re-examine the benefits of this approach in the overall context of the emerging intergovernmental system.

The FFC continues to pursue a costed-norms approach to the vertical division for local government. Although Government has reservations with a costed-norm approach for the reasons outlined for the 2000 FFC proposals on provincial allocations, it concurs with the FFC regarding the analytical value of more detailed and accurate information on the costing of basic municipal services. This exercise will, however, prove to be extremely difficult at this stage, given the poor budgeting and classification system. It supports that the FFC undertake a detailed and independent study on current service costs between localities and the underlying cost drivers and their movement over time.

FFC lifeline tariffs, subsidies and redistribution proposal

The FFC proposes that national government should fund lifeline tariffs. The recommendation equates the concept of subsidisation of service delivery with the introduction of "lifeline tariffs".

Government Response to FFC lifeline tariffs proposal

Government recognises its primary responsibility for redistribution, and by implication support for the free basic services commitment. This support is provided for in the equitable share, to avoid moral hazard implicit in a specific conditional grant for this purpose.

However, service delivery subsidies do not necessarily involve cross-subsidies, but to the extent this is what the FFC intends, it must also consider the efficiency costs and potential economic distortions implicit in this approach. This framework and the risks associated with a particular approach need more consideration than received to date. The discussion of lifeline tariffs does not recognise the primarily supportive (rather than regulatory) role of national government, but does recognise the importance of a national re-distributive strategy. The central question here is the extent to which local revenue sources can contribute to a subsidisation strategy. Related, the FFC's promotion of a single, supply-side, subsidy mechanism is not appropriate for all localities.

FFC infrastructure and capacity proposal

The FFC strongly supports the principle of a single, integrated conditional grant for capital, and its distribution on a three-year basis. It notes that the current fragmentation does not promote an integrated development approach. The FFC also supports a co-ordinated framework for capacity building and welcomes the introduction of the Municipal Systems Improvement Programme.

Government Response to infrastructure grant proposal

Government supports this proposal, and has started to implement this framework in the 2000/01 financial year. Given that this approach is being phased in over a few years, government also supports the FFC's recommendation to promote better co-ordination between various national departments to harmonise the relevant infrastructure grants. Whilst broadly supporting the FFC's recommendations with regard to an allocation formula and grant-matching, Government recommends further work before implementing these proposals. Government notes the support from the FFC for a co-ordinated framework for capacity building.

FFC RSC levies proposal

The FFC proposes that revenue obtained via RSC levies should be retained in the local government system, and that responsible local tax discretion be expanded. The FFC also proposes removal of the current earmarking on the use of the RSC levy (specifically the infrastructure earmarking) and the introduction of an equalisation grant.

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Government Response to FFC RSC levy proposal

Further work is required on appropriate municipal revenue instruments, both in the context of the RSC levies and the broader restructuring of local government. The finalisation of the powers and functions of the sphere and each category of municipality will inform the division of fiscal powers. Though the national government supports, in principle, the relaxation of any spending controls on revenue generated from the RSC levies, this proposal can only be implemented once municipal budgets are more transparent. The municipal budget reforms will require that all expenditure is properly (and consistently) classified and will minimise the risks associated with the removal of these restrictions (for example an uncontrolled expansion of consumption expenditure). Both of the FFC's proposals therefore require more investigation and discussion within this context.

FFC recommendations on Municipal Borrowing

The FFC supports the national government's intention to promote a local government borrowing market. It proposes a rules-based approach, and recommends regulating the extent to which a municipality may pledge its equitable share revenue to access debt.

Government Response to FFC municipal borrowing proposal

Government and the FFC strongly agree on the need and benefits of municipal borrowing. The national government published a detailed framework for municipal borrowing and financial emergencies in July 2000, titled "The Policy Framework for Municipal Borrowing and Financial Emergencies". Government views the roles of fiscal transfers and municipal borrowing as complementary. Potentially creditworthy municipalities should reduce their reliance on fiscal transfers to allow these funds to flow to non-creditworthy municipalities. This distinction is critical to understanding current government policy on municipal borrowing.

The FFC also contends that a "rules-based" approach to borrowing is appropriate for certain categories of local government. Undifferentiated normative limits relating debt or debt service to fixed percentages of a municipality's budget could encourage under-capacitated municipalities to over-borrow, and restrict healthy municipalities from appropriate levels of borrowing. Simple rules are not an effective substitute for assessing debt capacity. "Rules-based" limits may be appropriate for countries with under-developed financial sectors. However, it is not necessary where capital markets exist, as they do in South Africa. The objective is to ensure that capable municipalities use their full potential in order to free up national capital resources for poor and rural municipalities that cannot expect to attract private sector finance. Restricting the use of the equitable share would also impede budgetary discretion.

National government accepts the FFC's caution against creating dependence on national intervention, and believes that local governments should assume the greatest possible level of accountability for their own financial health. However, under some circumstances, mechanisms to deal with municipalities in financial emergency are required. Existing constitutional provisions and their implementation have proved inadequate: hence the approach proposed in the Municipal Finance Management Bill and the related constitutional amendment.

FFC district health services funding proposal

The FFC proposes that funding for municipal health services are included within the equitable share for local government in the long term. In the interim, it is proposed that current funding for district health services be disaggregated to a district level in order to enable more equitable allocations within provinces.

Government Response to FFC District Health Proposals

The devolution of functions from national or provincial government to local government is a complex process, involving not just the shifting of funds (as funds follow function), but also the shifting of personnel, assets and liabilities. As noted in the *2001 Intergovernmental Fiscal Review*, the financial impact of shifting staff from provincial to local government can be an extremely costly exercise, which if not managed properly, will squeeze out funds currently available for the delivery of services. Apart from district health care, other functions that may be devolved over the medium term include housing and rural water schemes.

A second issue relates to the *sequencing* of such devolution of functions. This must be informed by a process that prioritises such shifts, as swamping local government with additional functions in an uncoordinated way will risk destabilising that sphere. The *timing* for such shifts of function must take into account the current capacity of local governments to perform on their current functions. Further, this approach of decentralising need not be symmetrical, and could selectively decentralise to categories of municipalities that demonstrate that they are in a position to accept additional functions.

It is in this context that the FFC proposals on district health care must be assessed. This function is currently with provinces and the provincial equitable share formula includes a significant health component. For this reason, the transfer of functions should be duly identified and earmarked in the Division of Revenue Act on the basis that "funds follow function".

The pace and extent of such decentralisation has also not been finalised, the definition of health service provision has not been clarified and the costs thereof have not been quantified. The FFC proposal that funding for health services be excluded from the local government equitable share for the time being is supported.

Summary of discussion on FFC local government recommendations

The scope and detail of the FFC's recommendations on local government must be commended. There are a number of recommendations that the national government is in agreement with and accepts. Others require further work to become practical recommendations that can be implemented in the medium to long term. A number of outstanding policy issues, such as the division of non-metropolitan municipal powers and functions, require resolution before final recommendations can be made. The timing for implementing many of the reforms must take into account that the new municipalities will require some time to integrate and stabilise their delivery capacity.

Part 2: Fiscal Framework for 2002 MTEF

Fiscal framework

Table E-1 presents the medium term macroeconomic framework for the 2002 Budget, as tabled in the MTBPS. The macroeconomic framework sets out the growth assumptions and policy targets on which the fiscal framework is based.

Table E-1 Medium-term macroeconomic assumptions

	2001/02		2002/03		2003/04		2004/05
	2001 Budget	2002 Budget	2001 Budget	2002 Budget	2001 Budget	2002 Budget	2002 Budget
Gross domestic product (R million)	987 200	974 100	1 069	1 057	1 154	1 148	1 244
Real GDP growth	3.7	2.4	3.5	3.1	3.3	3.6	3.7
GDP inflation (%)	6.0	6.0	4.7	5.3	4.6	4.8	4.5
National Budget Framework							
Revenue (R billion)	233 438	238 199	252 851	254 726	273 122	276 822	299 323
Percentage of GDP	23.6	24.5	23.6	24.1	23.6	24.1	24.1
Expenditure (R billion)	258 318	261 090	277 323	282 634	297 524	304 839	327 298
Percentage of GDP	26.2	26.8	25.9	26.7	25.8	26.5	26.3
Budget deficit (R billion)	-24 880	-22 891	-24 472	-27 908	-24 402	-28 017	-27 975
Percentage of GDP	-2.5	-2.3	-2.3	-2.6	-2.1	-2.44	-2.25

Before resources can be divided, provision must be made for national commitments such as debt service costs and a contingency reserve. Debt servicing obligations of R48 billion, R50,6 billion and R53,1 billion are projected for the three MTEF years, and the contingency reserve amounts to R2 billion, R4 billion and R8 billion. Once these allocations are deducted, the total to be shared between the three spheres amounts to R232,6 billion, R250,3 billion and R266,2 billion over the three MTEF years. This pool of revenue is available for sharing between national, provincial and local spheres. Table E-2 sets out the impact` of these decisions on the division of revenue.

Table E-2 Fiscal Framework: Division of revenue between the spheres of government

R million	2001/02 2001 Budget[1]	Revised estimates	2002/03 Budget	2003/04 Medium-term estimate	2004/05
National allocation	84 286	87 090	93 422	99 342	105 467
Provincial allocation	117 387	118 887	130 814	140 927	150 092
Equitable share	104 136	105 336	116 142	124 856	133 078
Conditional grants	13 251	13 551	14 672	16 072	17 014
Local government allocation	6 506	6 975	8 381	10 002	10 602
Equitable share	2 618	2 946	3 429	4 598	5 037
Conditional grants	3 888	4 029	4 952	5 404	5 565
Allocated expenditure	**208 180**	**212 952**	**232 616**	**250 272**	**266 161**
Plus:					
Debt service costs	48 138	48 138	48 018	50 566	53 137
Contingency reserve	2 000	0	2 000	4 000	8 000
Total expenditure	**258 318**	**261 090**	**282 634**	**304 838**	**327 298**
Percentage of shared total	100%	100%	100	100	100
National allocation	40,5	40,9	40,2	39,7	39,6
Provincial allocation	56,4	55,8	56,2	56,3	56,4
Local government allocation	3,1	3,3	3,6	4,0	4,0

1. For comparative purposes, local government transfers have been shifted from provincial share to the local government share.

The division of resources between the three spheres is determined primarily by the initial baseline allocations in the 2001 Budget (reflecting current priorities), together with the additional priorities identified for the additional resources in the framework. Hence, changes are generally restricted to the margin.

The additional allocations are made available from the baseline contingency reserve and revisions to the framework arising from new projections on economic growth, inflation, and savings on debt service costs. The new priorities and pressures identified over and above the current priorities reflect Government's commitment towards reducing poverty, inequality, and vulnerability. These include:

- Increasing the take-up of the child support grant and the impact of HIV/AIDS on social development programmes
- Increased health spending to cope with cost pressures such as HIV/AIDS
- Poverty alleviation programmes, including social security and free basic services to the poor
- Continuing cost implications arising from the new demarcation of municipalities
- Increasing infrastructure spending to redress serious backlogs in maintenance, rehabilitation, and construction of public infrastructure and to stimulate investment and economic growth
- Restructuring national entities, specifically the Unemployment Insurance Trust Fund and the Post Office to ensure improved service quality and access
- Expansion of budgetary provisions for rural electrification
- Providing adequate learning support materials for schools.

These priorities determine how the additional allocations are to be divided between the spheres of government. These funds flow towards the sphere responsible for the prioritised functions. The impact of these policy decisions on the division of revenue is reflected in Table E-2.

The revised budget framework provides for additional spending of R5,3 billion in 2002/03 and R7,3 billion in 2003/04 compared with the estimates projected for these years in the 2001 Budget.

Most of the additional resources were allocated to the provinces, in recognition of the challenges they face in delivering social services, building and maintaining economic infrastructure, employment creation, promoting rural development and coping with HIV/AIDS. Local government, which must manage the amalgamation of various local authorities and provide for free basic services, gets a larger slice of additional revenue than its baseline proportion. The increases in the allocations to local government are significant, relative to the overall level of resources transferred to that sphere.

The national share decreases from 40,9 percent in 2001/02 to 40,2 in 2002/03 and further declines to 39,6 percent in 2004/05. The share dedicated to local government rises from 3,3 percent in 2001/02 to 4,0 percent in 2003/04. The provincial share also increases, from 55,8 percent in 2001/02 to 56,4 percent in 2003/04.

Schedule 1 of the Bill is the *legal* division of revenue between the three spheres, and is based on fiscal framework Table E-3. The table below indicates how Schedule 1 allocations can be reconciled with the fiscal framework Table E-2 above.

The national allocation in Schedule 1 (for 2001/02) is the actual amount allocated to the national government for appropriation or as a direct charge (but excluding the provincial equitable share). It includes conditional grants for provincial and local spheres, and (the top-sliced) allocation for state debt costs, which is a direct charge on the National Revenue Fund. It also includes the contingency reserve, which is to be allocated in the 2002 Adjustments Budget (or for the two outer years, to be reviewed in 2003 MTBPS).

The provincial and local government allocations in Schedule 1 reflect their equitable share allocations only, and therefore excludes all conditional grants and grants-in-kind.

Table E-3 Schedule 1 of the Division of Revenue Bill and the Fiscal Framework

R' Million	2001/02	2002/03	2003/04	2004/05
		Medium Term Estimates		
Total expenditure	**261 090**	**282 634**	**304 839**	**327 298**
Less:				
Debt service cost	48 138	48 018	50 566	53 137
Contingency reserve	-	2 000	4 000	8 000
Total allocated expenditure	**212 952**	**232 616**	**250 273**	**266 161**
Of which:				
National share including statutory appropriations and reserve	**152 807**	**163 063**	**175 385**	**189 183**
Less:	48 138	48 018	50 566	53 137
Debt service cost	48 138	48 018	50 566	53 137
Contingency reserve	-	2 000	4 000	8 000
National share	**104 669**	**113 045**	**120 819**	**128 046**
of which:				
Conditional grants	17 579	19 623	21 477	22 579
National share (excl. conditional grants)	**87 090**	**93 422**	**99 342**	**105 467**
Provincial share	**118 887**	**130 814**	**140 927**	**150 092**
of which:				
Equitable share	*105 336*	*116 142*	*124 856*	*133 078*
Conditional grants	13 551	14 672	16 072	17 014
Local government share	**6 974**	**8 380**	**10 004**	**10 602**
Of which:				
Equitable share	*2 946*	*3 429*	*4 598*	*5 037*
Conditional grants	4 028	4 951	5 406	5 565

Part 3: Taking Account of the 10 factors set out in the Constitution

Section 214 of the Constitution requires that the annual Division of Revenue Act only be enacted after account has been taken of the ten factors set out in sub-section 214(2) (a) to (j), including:

- The national interest, any provision for debt, the needs of the national government and emergencies
- The allocation of resources to provide basic services and meeting developmental needs
- The fiscal capacity and efficiency of the provincial and local spheres
- The reduction of economic disparities
- The promotion of stability and predictability.

This section gives effect to section 10(5)(a) of the Intergovernmental Fiscal Relations Act. It sets out how the ten factors are taken into account in determining the division of revenue for the 2002 MTEF. Before considering the division of revenue, it is important to note the allocation of functions between the three spheres of government.

Powers and functions

Functions are assigned to the three spheres of government in schedules 4 and 5 of the Constitution. A system of concurrent or joint responsibilities applies between national and provincial governments for functions like school education, health, welfare, housing, agriculture and urban and rural development. This, in practice, means that national government determines policy and regulates compliance, while provincial governments are responsible for implementation. Exclusive functions for provinces include provincial roads and traffic, ambulance services, planning responsibilities, abattoirs, liquor licences and so on.

Municipal functions include user fee services like electricity and gas reticulation, water and sanitation services (potable water supply systems, domestic waste-water and sewage disposal), and public funded services like stormwater management, refuse removal, municipal public transport, fire-fighting services, municipal streets and street lighting. Unlike provinces, municipalities can potentially raise revenue to fully fund the provision of electricity and water, which covers about two-thirds of their budgets. Only about one-third of a municipal budget covers tax-funded services that do not raise much revenue. Provinces, on the other hand, provide services that do not raise much revenue, and raise revenue for only 5percent of their budgets.

This leaves national government largely responsible for policy and regulatory functions over school education, health, welfare, housing and agriculture, resulting in small budgets for these departments. Only education has a large budget, but this is for transfers to institutions of higher education.

The most significant national functions from a budget perspective are those where the implementation responsibility resides with the national government. Over half the national government spending (after the equitable share, conditional and other grants and programmes to provinces and municipalities are excluded) is in the protection services (police, justice, prisons and defence). Other significant national budget items include higher education, public works, transport (bus subsidies, rail, national roads), trade and industry (for trade facilitation and technology advancement), funding of the South African Revenue Services (SARS) and water affairs. Other departments and agencies with responsibilities traditionally associated with national government include Foreign Affairs, Home Affairs, science councils, Land Affairs, Labour, Environment and Tourism, Minerals and Energy and Communications. These have relatively smaller, but significant, budgets.

The ten criteria below are premised on the above division of functions between the three spheres, and their fiscal capacity.

National interest and the division of resources

The 2001 FFC report notes that national interest is a broad concept, in which national government has an interest, although some of these fall under the competence of subnational governments. It notes that national interest could cover functions such as macroeconomic management, defence, internal security, foreign affairs, social security and tertiary education.

A stable macroeconomic environment, strong economic growth, reduced poverty, inequality and vulnerability, low unemployment, reduced crime and an efficient public service are necessary for higher standards of living for all South Africans. Since programmes to meet these goals cut across all three spheres of government, they are appropriately co-ordinated by national government. Broad-based programmes in the national interest introduced by Government since 1994 include the prioritisation of the social sectors (education, health and social welfare), nutrition, housing, the provision of free basic municipal services, municipal and provincial infrastructure, rural development, and the "working for water" campaign. Poverty alleviation and HIV/AIDS cut across departmental programmes and sectors.

Government has also shifted significant resources into the protection services cluster, with priority to the integrated justice system. Government also recognises that South Africa has a growing role in maintaining regional peace and security, and that there is a need to modernise defence capability.

Provision for debt costs

The resources shared among the three spheres of government include proceeds from borrowing by national government. The bulk of this borrowing is in the form of savings of South African citizens, with the remainder in foreign savings. In recognition of Government's obligation to repay those citizens and to protect the capacity to borrow at the lowest rates, debt service costs are met before resources are shared. Lower interest rates and retiring debt from privatisation proceeds has resulted in a reduction in state debt costs as a percentage of GDP. These savings release funds for expenditure on government priorities.

National needs and interests

The Constitution assigns exclusive and concurrent powers to each government sphere. The national government is responsible for functions that cross provincial boundaries, including protection services, economic services and foreign affairs. Key priorities are strengthening the integrated justice sector, national roads, railways and other infrastructure development and rehabilitation, restructuring public enterprises and programmes to alleviate poverty, inequality and vulnerability and enhance job creation. The national sphere is also responsible for tax administration, financial information systems and regulatory functions. National government is responsible for policy development, regulation and monitoring in functions shared with provincial and local government.

Provincial and local basic services

The prioritisation of basic services is reflected in the increasing allocations to provincial and local government. This is in line with the national objective to alleviate poverty and reduce vulnerability. Many budget changes in recent years specifically introduced programmes like the child support grant, free basic municipal services, infrastructure needs, and building capacity to cope with the impact of HIV/AIDS.

Sub-national governments have significant autonomy in allocating resources to meet basic needs and to respond to provincial and local priorities. The division of revenue provides for increases to the equitable share to provinces and local government. This will enable them to enhance basic services like school education, primary health, child support and other welfare grants and to provide a minimum level of free water and electricity.

Fiscal capacity and efficiency

Fiscal capacity refers to the ability of a government to raise revenue to cover expenditures. The Constitution assigns the primary sources of government revenue to national government. Local governments finance the bulk of their expenditure from property rates, regional service turnover and payroll levies, user charges and fees. National government receives more revenue than required to meet its obligations while the local sphere is only marginally dependent on national revenue, although there are marked disparities between large and small municipalities. The provincial sphere, however, is dependent on transfers as its expenditure responsibilities exceed its revenue-raising capacity. To compensate for this, nationally raised revenue is shared, with provinces receiving the largest share.

Options for increasing provincial fiscal capacity through own revenue sources continue to be explored. Section 228 of the Constitution requires an Act of Parliament to regulate provincial tax powers. Parliament is currently considering the Provincial Tax Regulation Process Bill to give effect to this constitutional obligation. Legislative and institutional changes to improve subnational access to borrowing are also under consideration.

All three spheres are strengthening financial management capacity to improve fiscal efficiency. The implementation of the Public Finance Management Act (PFMA), and programmes funded from the Supplementary Grant for Financial Management promote expenditure efficiency. The Financial Management Grant assists municipalities to modernise budgeting, management and financial management. The Municipal Finance Management Bill is also expected to take effect next year.

Developmental needs

Development needs are considered in both the equitable share formulae for provincial and local government and in specific conditional grants. The health component of the provincial equitable share formula distributes resources through the higher weighting of persons without access to medical aid. The welfare component includes a poverty adjustment that captures the target population for social grants. The backlog component reflects the need for infrastructure in poor and rural areas, as well as maintenance backlogs in the health and education sectors. The local government equitable share and Consolidated Municipal Infrastructure Programme fund basic services and infrastructure for low-income urban and rural communities. The needs of the rural poor receive priority in education, health and welfare budgets, as well as through water and sanitation programmes.

Government has also recently unveiled the Urban Renewal Strategy and the Integrated Sustainable Rural Development Programme. These programmes will provide impetus to the developmental foci of existing grant allocation mechanisms through favouring identified nodal areas for additional support. This will be funded through the reprioritisation of existing allocations to national grant programmes, provincial spending programmes and municipal budgets. Although existing national allocations demonstrate a bias towards the identified nodal areas, this trend will be accelerated over the MTEF, as additional resources become available. An additional R65 million has been appropriated in 2001/02 and 2002/03 to build the capacity of nodal municipalities to manage additional funds.

Economic disparities

Because there are economic and demographic disparities between and within provinces, the equitable share formulae are redistributive towards poorer provinces and municipalities.

The formulae and criteria used by national departments to distribute some of the conditional grants among provinces and municipalities also favour the poor. For example, allocation of the Housing subsidy focuses on the urban poor, whilst the Education Quality Enhancement grant distributes resources to provinces with a higher proportion of under-resourced schools.

The Consolidated Municipal Infrastructure Programme (CMIP) and the Provincial Infrastructure Grant also enhance the capacity of municipalities and provinces respectively to deal with economic disparities and infrastructure backlogs.

Obligations in terms of national legislation

While the Constitution confers autonomy on provincial governments to determine priorities and allocate budgets, national government retains responsibility for policy development and for monitoring implementation within concurrent functions. Although equitable share allocations and other transfers allow provinces and local government discretion, national policies create mandates. For example, criteria for social security grants are determined nationally, while costs are borne by provinces. Similar examples are in education, health, traffic management and road maintenance. Most conditional grants also fund national priorities to be implemented by provincial or local government. These include grants for housing and integrated nutrition.

Predictability and stability

Government has resolved that equitable shares will be based on estimates of nationally raised revenues, rather than actual revenue. Allocations are not adjusted downwards unless exceptional circumstances lead to a downward revision of the macroeconomic framework or under-collection of revenue. All allocations are for three years, although only one year is voted for. Further, the Bill specifies all allocations must be transferred according to a payment schedule. Thus, at the beginning of the financial year, provinces and local governments are assured of the amounts they will receive and when funds will be transferred. Greater certainty of revenues improves the quality of budget planning and expenditure projections in all spheres.

Need for flexibility in responding to emergencies

Although stable and predictable allocations are essential to a responsive financial system, government also needs flexibility to respond to changing circumstances, unexpected emergencies and evolving priorities. The contingency reserve provides a cushion against such uncertainties. Part of the two outer year contingency reserve grants are set aside for allocation during the next two budget years to meet new priorities identified in future. The contingency reserve for 2002/03 is to be fully allocated in the middle of the financial year, during the adjustments budget, when funds are allocated for "unforseeable and unavoidable" expenditure.

Part 4: Provincial Allocations

The Constitution entitles provinces to a share of nationally raised revenue. National transfers to provinces comprise more than 96 percent of provincial revenues, of which 88,7 percent is through the equitable share (see Table E-4). The remaining 11,3 percent flows through conditional grants. Provinces raise less than 4 percent of their revenues from own sources.

Table E-4 Total transfers to provinces, 2002/03

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	19 932	1 799	21 731
Free State	7 774	1 069	8 843
Gauteng	17 720	3 767	21 487
KwaZulu-Natal	23 669	2 488	26 157
Mpumalanga	8 194	815	9 009
Northern Cape	2 824	287	3 111
Northern Province	15 699	1 488	17 187
North West	9 716	830	10 546
Western Cape	10 615	2 129	12 744
Total	**116 143**	**14 672**	**130 815**

Provincial equitable share

The provincial equitable share allocation funds the bulk of public services rendered by provinces. The equitable share amounts to R116,1 billion in 2002/03, R124,8 billion in 2003/04, and R133 billion in 2004/05. The equitable share is divided between provinces (referred to as the horizontal division) using the provincial equitable share formula. This section explains the formula.

Revisions to the formula

The structure of the equitable share formula has been retained for the 2002 Budget. The formula, however, has been adjusted to reflect the increased spending on social services in provinces and new data. Firstly, the weighting of the social services components reflect expenditure on these services over a three year period. Based on expenditure data reported in the *Intergovernmental Fiscal Review 2001*, which indicates that welfare as a share of provincial expenditure in 2001/02 has risen to 19 percent (and reaches a high or 25 percent in Northern Cape), the weight for the welfare component has been increased by one percentage point. A balancing reduction in the weight of the economic component is also effected. Secondly, the formula has been updated for latest enrolment data in education. The data used in the education update is the average of the past three years (1998, 1999 and 2000) obtained from Department of Education.

The revised equitable share formula

The equitable share formula comprises seven components that attempt to capture the relative demand for services between provinces and to adjust for particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. Although the formula has components for education, health and welfare, the share "allocations" are intended merely as broad indications of relative need. Provincial Executive Committees have discretion regarding the provincial allocations for each function. The provincial equitable share formula (with latest updates) comprises the following components:

- An education share (41 per cent) based on the size of the school-age population (ages 6-17) and the average number of learners enrolled in ordinary public schools for the past three years
- A health share (19 per cent) based on the proportion of the population with and without access to medical aid
- A social security component (18 per cent) based on the estimated number of people entitled to social security grants – the elderly, disabled and children – weighted by using a poverty index derived from the Income and Expenditure Survey
- A basic share (7 per cent) derived from each province's share of the total population of the country
- A backlog component (3 per cent) based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities and the share of the rural population
- An economic output component (7 per cent) based on the distribution of total remuneration in the country
- An institutional component (5 per cent) divided equally among the provinces.

Table E-5 shows the current structure and distribution of the shares by component, and the target shares to be reached by 2003/04. The elements of the formula are neither indicative budgets nor guidelines as to how much should be spent on those functions. Rather, the components are weighted broadly in line with expenditure patterns to provide an indication of relative need.

Table E-5 Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institutional	Backlog	Target shares
Weighting	*41,0*	*19,0*	*18,0*	*7,0*	*7,0*	*5,0*	*3,0*	*100,0*
Eastern Cape	18,4	17,0	19,6	15,5	6,5	11,1	20,6	16,9
Free State	6,3	6,5	7,1	6,5	5,3	11,1	5,7	6,6
Gauteng	12,6	14,7	13,9	18,1	41,6	11,1	5,1	15,5
KwaZulu-Natal	22,0	21,7	19,6	20,7	17,0	11,1	22,9	20,6
Mpumalanga	7,3	7,2	6,5	6,9	4,9	11,1	8,5	7,2
Northern Cape	1,9	2,0	2,2	2,1	1,7	11,1	1,3	2,4
Northern Province	15,4	13,3	13,7	12,1	3,0	11,1	22,9	13,6
North West	8,0	8,6	8,7	8,3	5,7	11,1	9,4	8,3
Western Cape	8,0	8,9	8,8	9,7	14,4	11,1	3,7	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Education component

The education component targets primary and secondary schooling, which accounts for roughly 90 percent of provincial education spending. Both the population of school going age and enrolment numbers are used to reflect the demand for education services. The school-age cohort, ages 6-17, is double weighted, reflecting Government's desire to reduce out-of-age enrolment. The enrolment figures have been updated for the 2002 Budget, taking into account the average enrolment of the last three academic years (1998, 1999 and 2000) provided by the national Department of Education.

Table E-6 Calculation of education component

Thousands	Enrolment	School-age (6–17)	Weighted share (%)
Weighting	*1*	*2*	
Eastern Cape	2 253	2 010	18,4
Free State	784	680	6,3
Gauteng	1 508	1 394	12,6
KwaZulu-Natal	2 749	2 377	22,0
Mpumalanga	922	789	7,3
Northern Cape	202	223	1,9
Northern Province	1 904	1 665	15,4
North West	934	896	8,0
Western Cape	928	895	8,0
Total	**12 184**	**10 930**	**100,0**

Health component

The health component addresses the need for provinces to deliver primary and secondary health services. As all citizens are eligible for health services, the provincial shares of the total population form the basis for the health share. The formulation of the health component recognises that people without medical aid support are more likely to use public health facilities, and are therefore weighted four times higher than those with medical aid support. This implies that the uninsured account for 95 percent of the usage of public health facilities. The proportions of the population with and without access to medical aid are taken from the 1995 October Household Survey and applied to the census figures.

Table E-7 Calculation of health component

Thousands	With medical aid	Without medical aid	Weighted share (%)
Weighting	*1*	*4*	
Eastern Cape	510	5 793	17,0
Free State	467	2 166	6,5
Gauteng	2 958	4 390	14,7
KwaZulu-Natal	1 103	7 314	21,7
Mpumalanga	392	2 409	7,2
Northern Cape	175	665	2,0
Northern Province	376	4 554	13,3
North West	457	2 897	8,6
Western Cape	1 127	2 830	8,9
Total	**7 566**	**33 018**	**100,0**

Welfare component

The welfare component captures provinces' responsibility for providing social security grants. The constituent parts reflect the target populations of social security payments, weighted by the distribution of expenditure for each type of grant. For example, the bulk of social security payments are old-age pensions. Means testing of grants is reflected through an income adjustment based on the provincial share of the population in the lowest two quintiles of the income distribution. This information was drawn from the 1995 Income and Expenditure Survey, which has not been updated. Data from the Department of Welfare on actual expenditure by grant type indicate that the current weightings are still appropriate. Nevertheless, these weights do not make explicit provision for the child support grant, although the vertical division of revenue takes this into account.

Table E-8 Calculation of the welfare component

Percentage	Old age	Disability	Child care	All grants	Income adjustment	Weighted share
Weighting	*65,0*	*25,0*	*10,0*	*75,0*	*25,0*	*100,0*
Eastern Cape	19,1	15,5	17,4	18,0	24,3	19,6
Free State	6,2	6,5	5,7	6,2	9,6	7,1
Gauteng	15,7	18,1	14,3	16,2	7,2	13,9
KwaZulu-Natal	19,8	20,7	21,7	20,2	17,6	19,6
Mpumalanga	5,9	6,9	7,3	6,3	7,1	6,5
Northern Cape	2,1	2,1	2,0	2,1	2,6	2,2
Northern Province	13,0	12,1	14,8	13,0	15,8	13,7
North West	7,8	8,3	8,4	8,0	10,7	8,7
Western Cape	10,4	9,7	8,4	10,0	5,2	8,8
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Economic activity component

The economic activity component is a proxy for provincial tax revenue, directing a proportion of nationally collected revenue back to its source. It also reflects costs associated with economic activity, such as maintenance of provincial roads. The best indicator for economic activity in a province is the Gross Geographic Product. In 1999, the distribution of employee remuneration replaced provincial Gross Geographic Product (GGP) figures, since remuneration comprises roughly 60 percent of provincial GGP and the GGP figures had not been updated since 1994. For 2001, Government decided not to adjust this component of the formula, pending publication of new GGP data. The latest remuneration data reflect unstable trends. The continuing absence of GGP data raises concerns about the accuracy of data in the economic activity component.

Table E-9 Economic activity shares, 2001 Budget

Percentage	Share of Remuneration
Eastern Cape	6,5
Free State	5,3
Gauteng	41,6
KwaZulu-Natal	17,0
Mpumalanga	4,9
Northern Cape	1,7
Northern Province	3,0
North West	5,7
Western Cape	14,4
Total	**100,0**

Basic component

In 1999, the basic component was split into a basic share distributed by population and a backlog component. The backlog component incorporates estimates of capital needs as drawn from the

Schools Survey of Needs and the 1998 MTEF health sector report on hospital rehabilitation. The backlog component also incorporates a rural factor, in keeping with Government's focus on rural development. As no new information was available regarding its sub-components, the backlog component remained unchanged.

Table E-10 Calculation of backlog component

Percentage	Health	Education	Rural	Weighted share
Weighting	*18,0*	*40,0*	*42,0*	*100,0*
Eastern Cape	16,3	22,0	21,3	20,6
Free State	3,8	7,8	4,4	5,7
Gauteng	10,8	6,3	1,2	5,1
KwaZulu-Natal	16,0	23,5	25,5	22,9
Mpumalanga	9,2	7,5	9,1	8,5
Northern Cape	1,2	1,2	1,3	1,3
Northern Province	27,5	20,4	23,3	22,9
North West	9,1	7,5	11,6	9,4
Western Cape	6,1	3,9	2,3	3,7
Total	100,0	100,0	100,0	100,0

Institutional component

The institutional component recognises that some costs associated with running a government and providing services are not directly related to the size of a province's population. It is therefore evenly distributed between provinces, as was the case last year. It constitutes 5 percent of the total equitable share, of which each province gets 11,1 percent (as shown in table E-5).

The phasing-in of the formula

The formula determines the equitable share for each province. In 1999/2000, two years after the formula was introduced, data for the 1996 Census was published. The data reflected demographic profiles that were different from the preliminary census results used in the formula. Given the need to ensure stability in provincial budgets, it was agreed that revisions to the formula should be phased in over five years, from 1999/2000 to 2003/04. The target date of 2003/04 has been retained, so that the formula is fully implemented at the start of the 2003 MTEF cycle. Table E-11 shows the phasing.

Table E-11 Phasing in the equitable share since 2000 Budget

Percentage	1999/00 base	2000/01	20001/02	2002/03	2003/04 target
Phasing		*Year 1*	*Year 2*	*Year 3*	*Year 4*
Eastern Cape	17,6	17,4	17,3	17,1	16,9
Free State	6,8	6,8	6,7	6,7	6,6
Gauteng	14,9	15,1	15,2	15,4	15,5
KwaZulu-Natal	19,8	20,0	20,2	20,4	20,6
Mpumalanga	6,7	6,8	6,9	7,0	7,2
Northern Cape	2,4	2,4	2,4	2,4	2,4
Northern Province	13,3	13,4	13,5	13,5	13,6
North West	8,6	8,5	8,4	8,3	8,3
Western Cape	9,8	9,6	9,4	9,2	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Conditional grants to provinces

Schedules 3 and 4 of the Division of Revenue Bill lists all the conditional grants to provinces. Conditional grants are a small but significant portion of provincial revenue. These grants were introduced in 1998/99 to support national priorities, particularly in the social services sector. In particular, conditional grants are used to:

- Provide for national priorities in the budgets of other spheres
- Promote national norms and standards
- Compensate provinces for cross border flows and inter-provincial benefits
- Effect transition by supporting capacity-building and structural adjustments
- Address backlogs and regional disparities in social infrastructure.

Although the system of conditional grants has improved over the years, some problems still remain. The last two *Intergovernmental Fiscal Reviews* raised some of these problems, including non-transfers and underspending while various annual Division of Revenue Acts introduced corrective measures. The 2002 Division of Revenue Bill should finally complete this process of reform to promote advanced planning and enhance transparency and accountability by clarifying responsibilities of national departments and provincial officers.

Except for the housing subsidy and HIV/AIDS grants, no significant changes are made on the global allocations for conditional grants in the 2002 MTEF. However, significant changes are introduced in the policy framework underlying some of the grants, particularly in health and housing. Certain policy and equity considerations have necessitated restructuring and rationalisation of health grants in the coming Budget.

Provincial Conditional Grant Framework

The provincial grant framework for conditional grants addresses problems that emerged with the implementation of conditional grants. The framework aims to:

- Reduce the number of conditional grants to the absolute minimum, and only where the equitable share and norms and standards cannot ensure the funding of specific programmes
- Eliminate small conditional grants as these impose an undue administrative burden
- Provide tougher criteria for national departments planning to create conditional grants, including a more rigorous process of consultation with provinces
- Incorporate the determination of conditional grants into the normal budget preparation process

- Provide best practice in designing, planning and monitoring conditional grants to promote multi-year planning
- Focus on outcome rather than inputs when monitoring conditional grants.

The framework draws a distinction between equitable shares and conditional grants. It emphasises that equitable shares are unconditional transfers made to provinces to enable them to provide basic services (and nationally agreed priorities) such as school education, health and social grants, and other constitutionally assigned functions. The development of a coherent set of norms and standards with quantifiable measures of service delivery will enable national departments to effectively monitor the extent to which sub-national budgets comply with national standards. Reforms in the intergovernmental system, financial management and budget process provide for a better understanding of national priorities and pressures on sub-national budgets and allow for effective monitoring of provincial budgets to ensure that provinces appropriately prioritise nationally-agreed policies in their budgets.

The framework draws a distinction between two types of conditional grants: block grants and specific purpose grants. Block grants provide general recurrent funding for assigned or specialised functions and have limited conditionalities. Block grants include specialised grants like the National Tertiary Services Grant and Supplementary Allocation Grant. Special purpose grants have strong conditions attached, often to fund specific national priorities. These grants are used to change the way services are delivered in a particular sector in the short to medium term, through the conditions imposed by the national department, which can result in withholding of some or all funds, or in some other sanction if the conditions are not met. Examples of such grants include the provincial infrastructure grant, the housing subsidy grant and the education financial management grant.

Specific purpose grants must be *an option of last resort* considered only if a national department can demonstrate that the equitable share mechanism has failed to get provinces to budget for specific priorities. Such conditional grants should not be applied to influence minor aspects of service delivery, or impose administrative burdens out of proportion to the size of the grant.

Given the complex system of intergovernmental relations, a set of principles to guide the budgeting process across all three spheres of government has been developed. These principles not only promote transparency, but also ensure accountability, better auditing of actual spending, better planning and implementation of conditional grants. The critical principles are:

- All fund allocations must be part of one comprehensive budget process
- Three-year allocations for all grants
- Each grant to be appropriated by the receiving beneficiary government
- Transparency of criteria for division of a grant between provinces
- Focus on outputs and monitoring for performance
- Accountability arrangements should ensure that national departments administering conditional grants properly exercise their (fiduciary) responsibilities.

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Table E-12 Conditional grants to provinces

R million	2001/02	2002/03	2003/04	2004/05
Health				
Central hospitals	3 271			
Training and research	1 234			
Redistribution of specialised services	182			
National tertiary services [1]		3 666	3 892	4 151
Health professional training and development [2]		1 279	1 299	1 393
Hospital rehabilitation	500	520	543	576
Nkosi Albert Luthuli academic hospital	104	-	-	-
Pretoria Academic	50	70	90	-
Integrated Nutrition Programme	582	582	582	617
HIV/AIDS	34	132	240	353
Sub-Total Health	**5 957**	**6 251**	**6 649**	**7 091**
National Treasury				
Supplementary allocation	2 248	2 152	2 158	2 166
Provincial infrastructure	800	1 550	2 314	2 853
Flood infrastructure rehabilitation	600	400	200	-
Section 100 Grant	300			
Sub-total Treasury	**3 948**	**4 102**	**4 672**	**5 019**
Education				
Financial management and quality enhancement	213	224	234	248
HIV/AIDS	64	142	117	125
ECD	21	52	88	-
Sub-total Education	**298**	**418**	**440**	**373**
Housing				
Housing Fund	3 226	3 740	4 138	4 346
Human Settlement (Urban Development)	100	104	109	116
Sub-total housing	**3 326**	**3 844**	**4 247**	**4 462**
Welfare and Labour				
Financial management	10	11	-	-
HIV/AIDS	13	47	64	68
Sub-Total Welfare	**23**	**57**	**64**	**68**
Total	**13 551**	**14 672**	**16 072**	**17 013**

Allocations

Table E-12 and E-13 provides a summary of conditional grants by sector for 2002/03, and the allocation between provinces. Of the total conditional grants allocation in 2002, the largest allocation is made to the health sector (R6,3 billion), followed by the National Treasury (R4,1 billion) and the Department of Housing (R3,8 billion). The Education and Welfare Departments administer relatively small but important grants for the improvement of financial management in these sectors. Four provinces, Gauteng, KwaZulu-Natal, Western Cape and Free State, benefit most from tertiary services and training grants. Significantly, they provide specialised services to all citizens. Other health grants flow mainly to poorer provinces. What follows below is a summary of all the conditional grants listed in the Schedule 3 and 4 of the Bill. In addition, the

Appendix to this memorandum contains more detailed information on every provincial conditional grant.

Table E-13 Conditional Grants to Provinces for 2002/03

R'000	Health	Supple-mentary[1]	Infrast-ructure	Housing	Education	Welfare	Total
Eastern Cape	424 978	353 615	356 107	581 485	77 390	5 897	1 799 4
Free State	444 907	147 919	151 913	290 597	26 354	7 710	1 069 4
Gauteng	2 381 322	344 293	157 084	824 939	51 453	8 036	3 767 1
KwaZulu-Natal	891 589	429 783	331 123	733 758	92 449	9 663	2 488 3
Mpumalanga	167 426	151 809	208 961	248 038	30 537	8 129	814 90
Northern Cape	84 753	58 711	52 997	78 309	7 948	3 804	286 52
Northern Province	281 597	282 764	460 519	392 767	65 676	4 269	1 487 5
North West	168 910	177 957	135 086	308 001	33 466	6 548	829 96
Western Cape	1 405 231	205 149	96 210	385 778	33 047	3 246	2 128 6
Total	6 250 713	2 152 000	1 950 000	3 843 672	418 320	57 302	14 672 (

1. The National Treasury administers the supplementary and infrastructure grants.

Health grants

The health grants amount to about R6,3 billion in 2002/03, and increase to R7,1 billion by 2004/05. They constitute about 42,6 percent of the total conditional grants to provinces. Apart from the integrated nutrition grant, all health grants are predominantly aimed at hospitals, and mainly fund tertiary services and training. The health sector's new framework for the tertiary services and training grants provides for a major reconfiguration of the three tertiary services and training grants, with the view of making them more equitable. The new framework provides for the rationalisation of the three grants into two: national tertiary services grant (NTS grant) and a health professional and development grant (HPTD grant).

The NTS grant amounts to R3,7 billion in 2002/03, increasing to R4,2 billion in 2004/05. The NTS grant will fund tertiary units in 27 hospitals compared to the current central hospitals grant which only funded ten central hospitals. This requires redistribution of funds from Western Cape and Gauteng to other provinces. Western Cape and Gauteng are expected to fund any resulting shortfalls from their equitable share or own revenue. In order to give these provinces time to adjust to lower levels of funding from the grant, the shift between provinces will be phased in over five years, subject to an annual review to accelerate this process. The basis for the grant allocations is the actual cost of selected tertiary services identified and is costed in the recent two-year research project. Since the cost methodology underlying the new grant includes certain training costs, part of the health professionals training and research grant has been incorporated into the NTS Grant.

The HPTD grant consists of several components. The largest is distributed to provinces according to a formula based on the number of current medical students. This component will be subject to further analysis and research over the coming year. A new component of the grant, amounting to R227 million over five years, will be introduced in 2002/03. This will provide for a phased increase in the number of medical specialists and registrars in under-served provinces to address inequities highlighted in the in the 2001 IGFR. The aim is that 25 percent of post-graduate training capacity should be developed in provinces that presently do not have such capacity. The allocation for the HPTD grant is R1,3 billion in 2002/03.

The allocation for hospital rehabilitation grant is R520 million in 2002/03, increasing to R576 million in 2004/05. Gauteng will receive R70 million in 2002/03 and R90 million in 2003/04 as a contribution from national government towards the costs of construction of the Pretoria Academic Hospital.

The INP is targeted at poor provinces with high populations of school children. Eastern Cape, Northern Province and KwaZulu-Natal receive about 63,5percent of the allocation. This grant increases to R617 million in 2004/05 after being kept constant at R582 million. The Department of Health is also finalising a review of this grant that will inform any changes in its administration and the level of funding for the 2003 MTEF. Discussions are also underway to consolidate other health grants like the hospital management and health component of the provincial infrastructure grant into the current Health conditional grants under the National Treasury vote.

Education grants

The Department of Education manages grants for financial management and quality enhancement in schools as well as for early childhood development (ECD). The financial management and quality enhancement grant was introduced in 1999/2000 and was to be phased out in 2002/03. But the Department of Education proposed that the grant be retained to consolidate the gains achieved over the last three years in improving outcomes in education. The grant plays a pivotal role in the implementation of *Tirisano*. No changes are proposed to the baseline allocations of this grant.

The ECD grant was introduced in 2001/02, and is phased into the equitable share in 2003/04. The rollout of the programme, to be phased in over ten years, will be funded principally from provincial equitable shares.

The national Department of Education implements two projects through funding from the national special poverty relief fund. The projects are for school building (Thuba Makote project) and training and development of adult learners (Ikhewelo project). These are considered indirect transfers as their outputs will benefit provinces, even though the national department implements them. Thuba Makote project is an initiative by the Department of Education to develop and pilot cost effective approaches to the design, construction and management of school facilities which can also serve as centres for community development. The allocation for this project amounts to R34 million in 2002/03, increasing to R64 million in 2003/04. The Ikhwelo project aims to provide access to literacy and skills development to adult learners. It develops trainers who will train adult learners in agricultural and SMME skills in addition to literacy. The allocation for Ikhwelo increases from R25 million in 2001/02 to R50 million in 2003/04.

National Treasury grants

The supplementary grant was used as a mechanism for consolidating small grants in the 2001 Budget, as part of the rationalisation and consolidation process. This effectively created two windows for this grant. The first window is the original allocation for general provincial budgetary support, which remains at R2 billion over the MTEF. The rationale for the continued existence of the grant in the next three years is premised on the need to deepen budget reform, strengthen the oversight role of national government over provincial finances, and encourage continued improvement in financial and expenditure management, including the effective implementation of the PFMA.

A second small window has been created in the supplementary grant to merge small grants. This portion of the grant amounts to R152 million. This will allow for a more informal arrangement, in terms of which many of the smaller budget objectives of various departments can be realised without imposing undue administrative burdens on provinces. The grants that have been consolidated into the supplementary grant are the financial management grant (R124 million), the capacity building grant in the delivery of housing (R10 million), and funds for the implementation of the National Land Transport and Transition Act (R18 million). A significant portion of the financial management allocation is devoted to pilot projects in the major academic/central hospitals in order to improve financial management in these hospitals. Discussions are underway to incorporate these grants into the equitable share.

The provincial infrastructure grant grows from R800 million in 2001/02 to R1 550 million in 2002/03, R2 314 million in 2003/04 and R2 853 million in 2004/05. This brings the total infrastructure funds available through this grant to R6,7 billion over this period. To facilitate effective use of the grant to deal with backlogs, the provincial division has been effected using the average of the percentage equitable shares and the backlog component. This enables government to direct funds towards provinces with large backlogs, without neglecting provinces that have inherited higher levels of infrastructure. Provinces are expected to use these funds mainly for rehabilitation and construction of roads, schools, and health facilities and to address the specific infrastructure needs for rural development. Provincial treasuries administer this grant. The allocations are to be made to the line departments responsible for the implementation of the infrastructure projects. Provinces are also expected to build capacity in treasuries to oversee the implementation of infrastructure plans and capital projects as inadequate capacity and poor planning have been major reasons for under-spending of capital grants.

The flood disaster reconstruction grant is used to assist with the reconstruction and rehabilitation of infrastructure damaged by floods in 1999/2000 in affected provinces (Mpumalanga, KwaZulu-Natal, Northern Province and Eastern Cape). The 2002 Budget framework also sets aside funds for flood reconstruction amounting to R400 million in 2002/03 and R200 million in 2003/04, for spending in provinces.

Housing grants

The Department of Housing administers two grants. The Housing Subsidy Fund provides subsidies for low income housing, and the human settlement redevelopment grant funds pilot projects in urban areas.

The Department of Housing has taken a number of policy decisions which impact on the framework for the housing subsidy grant. These include a shift in financing policy to urban areas, recognising the magnitude of housing backlogs; a focus on improving the quality of housing units being delivered; an increase in the maximum housing subsidy level from R16 000 to R25 000; and implementation of medium density housing.

In order to enable the department to implement the new policies whilst still reducing the amount of backlogs in housing, the grant increases by R300 million, R579 million and R574 million above baseline over the next 3-year period. This will raise real growth in housing expenditure to about 6 per cent a year.

The Department of Housing has reviewed the formula for allocating funds between provinces in order to align it with the new policy direction for prioritisation of urban and medium density housing. The key elements of the new formula and weights are:

- Housing need (50 percent), defined in terms number of homeless people living in shacks and informal units
- Households earning less than R3 500 (30 percent)
- Population based on the 1996 Census (20 percent).

In order to reduce the impact of the formula on the losing provinces, it was phased in for the first two years by applying it only to the additional allocations to the 2001 baseline. The old formula was retained for the baseline allocations. For 2004/05, the formula was applied to the total allocation for the grant.

Social development grants

Most of the social development grants have been phased out. The Financial Management Grant will be phased out this year and R11 million is set aside for provinces in 2002/03. The HIV/AIDS grant is the most important one in the department as it provides for increased pressures on home-based care.

HIV/AIDS conditional grants

Government started implementing an integrated strategy for HIV/AIDS through the social service departments (education, health and welfare) in the 2001 Budget. The strategy focuses on care and support for children and youth affected and infected by HIV/AIDS. Provinces were allocated R110 million 2001/02, 31 per cent of which is allocated to health departments for HIV testing and counselling and for home based care while 58 percent is allocated to education for implementation of lifeskills programmes in schools. Mindful of the need to step up HIV/AIDS programmes, government is setting aside increased amounts to earmarked allocations for a special programme over the MTEF amounting to R320 million in 2002/03, R422 million in 2003/04 and R546 million in 2004/05.

The share of health increases from R34 million in 2001/02 to R132 million in 2002/03. This will enable provinces to strengthen voluntary counselling and testing, provincial programme management, introduce step-down care as another care option, and fund rollout of the mother to child transmission prevention program.

The education sector is responsible for the roll out of lifeskills programme in schools, and the Department of Social Development is responsible for the development of home-based care. The HIV/AIDS grant allocation to Education increases from R63,5 million in 2001/02 to R142 million in 2002/02, and Social Development share increases from R12,5 million to R46,5 million.

Further work on Conditional Grants

Consultations are taking place over implementing the key reforms to consolidate and rationalise conditional grants in time for the 2002 Budget. Measures being discussed include:

- Implementation of the decision that smaller grants like for hospital management, and part of the rehabilitation grant, are to be incorporated into the national tertiary services grant.
- The rationalisation of all infrastructure grants into one big grant, or into three specific grants (education, health, roads) including the provincial infrastructure grant and hospital rehabilitation grant.
- Incorporating small grants into the equitable share or other conditional grants, but with an agreement that internal management budget formats will indicate the funds allocated for specific national objectives. A major problem to address is the plethora of small conditional and agency grants created by the poverty-alleviation fund.
- Possible incorporation of supplementary grant into the provincial equitable share.

Part 5: Local government allocations

Revenue for the local government sphere is derived from taxes and user charges raised by municipalities. Grants from national government, including the equitable share and conditional grants, comprised about 7 percent of the R58 billion spent by local government in the 1999/00 financial year and 7,5 percent in 2000/01.

There has been a significant increase in allocations to local government for the 2002/03 MTEF. This includes major increases to the equitable share and the addition of a conditional grant to assist municipalities with once-off transition costs arising from demarcation. In total, national transfers to local government will increase from R6,9 billion in 2001/02 to R10,6 billion in 2004/05, an average annual increase of 15 percent. Table E-14 below reflects national transfers to local government by major category.

Table E-14: National transfers to local government

R millions	2000/01	2001/02	2002/03	2003/04	2004/05
			Current MTEF		
Equitable share	1 867	2 618	3429	4598	5037
R293 personnel	463	-	-	-	-
Transition grant	100	578	200	-	-
Water & sanitation operating subsidy	746	692	644	662	702
Equitable share and operating subsidies	**3 176**	**3 888**	**4 273**	**5 260**	**5 739**
Restructuring & capacity building[1]	566	600	818	838	869
Infrastructure[2]	1 970	2 487	3 080	3 694	3 784
Electrification	0	0	210	210	210
Total transfers to local government[3]	**5 712**	**6 975**	**8 381**	**10 002**	**10 602**
Percentage increase		*22%*	*20%*	*20%*	*6%*

1. *Includes recurrent transfers scheduled for consolidation such as the Municipal Systems Improvement Programme, the Local Government Support Programme, the Financial Management Grant and the Restructuring Grant.*
2. *Includes infrastructure transfers scheduled for consolidation such as CMIP, the Rural Water Programme, the LED Fund and the Community Based Public Works Programme.*
3. *Excludes Allocations to SALGA of R22 million, R20 million and R17 million reflecting an increase of R7 million, R5 million and R2 million over the 2002 MTEF, funded from the Local Share.*

Types of Transfers

Local government transfers from nationally raised revenue take three forms: an equitable share of nationally raised revenue, conditional grants and grants-in-kind:

- Equitable share allocations are made to primary municipalities, without conditions attached. Allocations are made in terms of a policy framework described in *The Introduction of an Equitable Share of Nationally Raised Revenue for Local Government* (Department of Finance, 1998), and administered by the Department of Provincial and Local Government.
- Conditional grants are made to municipalities that apply for or are selected to receive these funds. These grants are operated and disbursed by departments in pursuit of specific policy objectives and with conditions attached.
- Grants-in-kind are made when municipalities perform certain services on behalf of national or provincial government, or are subsidised by a national or provincial department that provides a service for which a municipality is responsible. An example of the former are certain health and emergency services; an example of the latter is the Water Services Operating Subsidy.

National government is continuously refining the system of intergovernmental transfers to municipalities in order to improve efficiency, equity, transparency and predictability. This reform programme will:

- Simplify and rationalise national transfers to the local government sphere, including consolidating capacity building grants into one inter-departmentally coordinated mechanism, consolidating capital transfers into CMIP, and consolidating other transfers into the local government equitable share
- Introduce three-year allocations to individual municipalities for all national transfers in order to assist their budget processes
- Require municipalities to show all national and provincial transfers on their budgets and periodically report on outputs achieved by conditional grant programmes.

As with provincial transfers, conditional grants for local government are being rationalised and consolidated. Whilst there has been significant progress in 2000/01, the bigger challenge in future years will be to identify and consolidate grants-in-kind to local government. Grants-in-kind take the form of beneficial support in municipal services or infrastructure delivered by a national or provincial departments directly to municipalities, often as a result of municipal capacity constraints. These grants, however, inadvertently lead to perverse outcomes, with higher-than-affordable levels of services provided and the municipality often refusing to take ownership or transfer of the assets created due to operational and maintenance concerns. These generally are historical functions that were provided by national and provincial government and include, amongst others, sector functions such as water and public works. Work is underway to identify and map out a path to address some of these challenges. More details should be available closer to Budget Day 2002. A major impediment, however, is the pace at which the newly demarcated municipalities will fully amalgamate, and uncertainty whether they will take due responsibility for services in their areas of jurisdiction.

Given that the municipal financial year commences in July, and due to the need to update data, the division of revenue and grant allocation by municipality is less urgent. The aim is to finalise the horizontal allocations for municipalities by Budget Day, after consultations between national departments and organised local government. The completion date for this process is set for 31 January 2002, and details will be announced by Budget Day, February 2002.

The equitable share for local government

Background

The equitable share for local government is meant to be an unconditional operating grant, with its formula for division between municipalities based on the principles of equity, transparency, predictability, and accountability. It was first introduced in the 1998/99 financial year and it replaced the previous intergovernmental grants transferred through provinces, and whose division between municipalities differed between provinces and lacked transparency.

National transfers to local government through the equitable share are projected to increase 20% percent a year from the 2000/01 allocation of R2,4 billion to R5 billion in 2004/05. These increases are to support institution-building in the newly demarcated municipalities and to provide resources to implement commitments on the provision of free basic services.

Three operating grants currently in place are also expected to be incorporated into the equitable share. These are the Water Services Operating Subsidy, the R293 grant and the Local Government Transition Grant.

The Water Operating grant, funded through the augmentation of the Water Services Account on the DWAF vote, funds the operation of retail water schemes owned and run by DWAF. These schemes are intended for transfer to municipalities, although little progress has been made on this to date. The key reasons for this are:

- There is little or no cost recovery on these schemes, and they often lack a basic credit management infrastructure (such as meters or billing systems). Municipalities are not keen to take transfer of these schemes,
- The schemes may also require refurbishment before transfer. Little funding is provided for this to occur. The funding for refurbishments generally declined on the basis that funding is already available in the rural water capital programme.

The Department is currently preparing for the transfer of these schemes to municipalities, in line with the constitutional allocation of functions. Once funding for these schemes has been incorporated, it will significantly enhance the ability of municipalities to address the challenges of providing free basic services to poor households.

The Local Government Transition Grant, aimed at supporting municipalities through the transition process by partially assisting with once-off costs directly related to the amalgamation, is planned to be absorbed into the equitable share in the 2003/04 fiscal year.

The R293 grant has already being incorporated into the equitable share in 2000/01, though it is not divided in terms of the formula. This grant covers towns under the old homeland administrations, and involved the transfer of staff and assets from provinces to municipalities. In 2000/01 the R293 allocation for municipal functions (R447 million) was incorporated into the local government equitable share. Based on the number of people actually transferred to municipalities or retained by provinces, the local government equitable share increased by R358 million while R105 million remained with provinces. Based on previous agreements with local governments, municipalities are guaranteed their current R293 grant allocations until 2003/04. This allocation will be incorporated into the equitable share from the 2004/05 financial year.

Equitable share formula

Excluding the small R293 component of R 358 million each in 2002/03 and 2003/04, the local government equitable share formula consists of two components:

- An institutional grant (I grant) to support the overhead costs of municipalities with a small revenue base in relation to their population
- A basic services grant (S grant) to support the operating cost of basic services provided to low-income households.

The components of the local government equitable share formula and the underlying data in the formula are reviewed in the remainder of this section. A review and update of the formula was made possible by the finalisation of demarcation, regular updates to poverty data by Statistics SA and the FFC recommendations. Improvements to the formula are described in this section.

Description of information supplied by Statistics South Africa

Statistics South Africa has organised the 1996 Population Census data by the new Category A, B and C municipal boundaries and has tabulated it for each municipality by:

- Gender
- Urban/rural residence
- Employed persons of age 15 to 65, by industry
- Average household size
- Derived household income (derived, that is, from all recorded personal incomes of household members plus the households additional income and remittances received) reported in four income classes: less than R 800 per month, R 801 – R 1 100 per month, R 1 101 – R 1 500 per month and more than R 1 500 per month.
- Imputed household expenditure based on regression relationships from the 1995 Income and Expenditure Survey/October Household Survey
- Population of old municipalities falling within each new municipality.

The I grant

The institutional grant to local authorities has the following features:

- It assumes that there are economies of scale in the overhead operating costs in relation to population, so that as the population rises, the I grant per capita falls.
- It declines as the average income of the municipality increases, so that for a given population size, poor municipalities receive a higher I grant than rich ones.

The mathematical formula for the *I* grant is:

$$I = I_0 P^{\gamma} - 0.05(y - 180)P$$

- where I is the institutional grant.
- I_0 is a parameter defining how much in aggregate will be distributed through the *I grant* (I_0 was set at R61 750 in the 2000/01 financial year).
- P is the population in the municipality.
- γ defines the economies of scale (which has been set at 0,25), and y is the average income per capita in the municipality.
- $0.05(y-180)P$ represents normative rates income and assumes that individuals will pay 5 percent of their income towards property taxes once the poverty threshold of R180 per month (equivalent to R800 per month for households) has been taken into account. A normative rates approach was taken so that municipalities could not manipulate the I grant by imposing low rates.

Given that a period of new institution-building commenced in 2001/02 and will continue for some time, the "I" grant portion of the equitable share was increased initially by 30 percent in the 2001/02 Budget and will be increasing by a further 42 percent in 2002/03. The "I" grant portion of the formula will be re-evaluated in future years

The above formula was adjusted from 2001/02 since a change in the R800 poverty threshold was adjusted to R1100 (see below). This resulted in a change in the "*I*" Grant formula from $0.05(y - 180)P$ to $0.05(y - 250)P$.

In 2002/03 the formula will be further adjusted to cover the costs of governance and the new dispensation for councillor remuneration. It will also extend the funding of institutional capacity to selected category "C" municipalities with poor fiscal capacity. This will assist with the establishment of administrative capacity. These initiatives and measures should be seen within the context of the broader fiscal and constitutional principles. The policy priorities and budgetary choices that most impact on future financial commitments will be decided by the relevant local government . The current proposal is to effect minor changes to the formula.

The S grant

The S grant is designed to meet the operating costs of providing basic services to low-income households. For this reason, the formula requires an estimate of the number of people in households below the poverty level for each local authority.

The formula for the S grant is:

$S = \alpha\beta LH$ where

- α is a phase-in parameter between zero and one based on the municipality's classification as metropolitan, urban, or rural.
- β is a budget-adjustment parameter, set to adjust the size of grants to the available budget.
- L is the annual per capita cost of providing basic services to households in poverty
- H is number of households in poverty.

The value of α was set differently for metropolitan/urban municipalities and rural municipalities. In 1998/99 the metro/urban α was set at 0,6 for urban areas and 0,1 for rural areas, the justification being that the proportion of the poor population actually in receipt of basic services would differ between urban and rural areas. The values for α were set to increase each year until they reached 1,0. The metro/urban α was set at 0,7 in 1999/2000 and the rural α was set at 0,25. To increase stability during the transition to newly demarcated municipalities, the α's were not changed in the 2000/01 allocations. The regular phase-in of the α values resumed for the 2001/02 allocations and accordingly set to 0,8 for the metro/urban α and 0,4 for the rural α. For 2002/03 the alphas will be 0.9 (urban) 0.55 (rural), for 2003/04, 1.0 (urban) 0.7 (rural) and by 2004/05 both alphas will have been merged.

The interim local government system formally distinguished urban municipalities from rural municipalities. This distinction is not a feature of the final local government dispensation. Therefore reconsideration of α (coverage parameter) in the S grant formula is necessary. Although Statistics SA no longer classifies municipalities as urban or rural, enumerator areas within municipalities are classified in this way. In future, the formula will use census data to determine the population in urban and rural areas within each municipality. It will use different values for α for each, so that average value for α varies across municipalities. The more urban the municipality, the higher would be the average value for α.

A rough estimate of the cost of a basic basket of services to determine the L parameter in 1998

Service	Rands
Electricity	36
Water	20
Refuse	20
Sanitation	10
Total	**86**

It should be stressed that these cost estimates are indicative. A study is underway to update the costs of this indicative basket of services.

There are two methods to determine ***H***, the number of households in poverty,

- Derived household income
- Imputed household expenditure.

Up to the 2000/01 financial year, the derived household income, supplied by Statistics SA, was used to determine the number of poor households. In a study for Statistics SA in 2000, an alternative was developed to the derived household income method. This new method imputes an income to each household, using regression results of income on a range of variables from the 1995 Income and Expenditure Survey (IES). The relevant variables in the 1996 Census are then used to predict income for each household.

It is widely agreed that data on household expenditure, particularly for households with limited economic resources, provide a better measure of total income (or, more generally *ability to pay*) than data on income. By combining various data sources (Census 1996 and Income and Expenditure Survey results), it was possible to determine imputed household expenditures for individual municipalities. Because Statistics SA's tabulations of imputed expenditure provide a more accurate measure of poverty, they were used from the 2001/02 equitable share allocation model for calculating both the "***I***" and "***S***" grants. The data is updated annually using government published inflation figures.

Measuring tax capacity

The initial formula proposed by National Treasury on the inception of the equitable share included a "***T***" (tax capacity) component for intra-metropolitan tax equalisation that was not implemented. This was because the regional service levy income at the metro level reduced the need for spillover transfers. It has become necessary since demarcation to include this component, in order to replace the inadequate fiscal capacity measuring in the "***I***" grant. However, the "T" component cannot be immediately implemented because current data on property rates is not readily measurable for tax capacity purposes due to:

- The current state of municipal records that do not often provide details of the categories and values of properties and;
- Varying definitions of property tax bases in different parts of the country.

The Property Rates Bill will introduce a more uniform system of assessment, but will probably only be enacted in mid-2002. Current data submitted to National Treasury do not follow uniform reporting formats, and data generated through budget reforms is only available for a few pilot municipalities. Measures are being implemented to address this situation. The FFC is currently working on proposals for fiscal capacity measures, assessing the availability of data for each proposed measure and modelling the distribution effects of various options.

Guaranteed amounts

To prevent potentially serious disruptions in services of those municipalities that faced substantial declines in transfers as a result of the implementation of the equitable share system, municipalities are guaranteed to receive at least 70 percent of the allocation of the previous year. Municipalities received either the "I" plus "S" grant or the guaranteed amount, whichever is the greater. R293 grant allocations are additional to the guaranteed amount for 2001/02 to 2003/04 and no further.

Guaranteed amounts were maintained in 2001/02 allocations using the following method:

- For new municipalities made up of several complete old local municipalities, the guaranteed amount for 2001/02 was set at 70% of the sum of the 2000/01 allocations to all the component old municipalities. A decision will be made based on current research on whether to continue with the guarantee.

- For newly demarcated municipalities that are composed of parts of existing municipalities, the guaranteed amounts were determined by splitting the 2000/01 allocations between more than one newly demarcated jurisdiction on the basis of population numbers.

Equitable share distribution

The equitable share allocation is generally distributed directly to Category A and B municipalities. The exceptions to this rule are:

- District management areas in which there is no Category B municipality and the Category C municipality carries out the relevant functions
- Category B municipalities that are institutionally weak and have limited treasury functions, in which case the relevant Category C municipalities may be obliged to provide basic services on their behalf.

Additionally, in the 2002/03 financial year the I grant component of the equitable share will be made available to district municipalities to assist them in maintaining basic administrative and governance functions. The S grant component will continue to be allocated by formula to Category B municipalities, subject to the resolution of the powers and functions of Category B and C municipalities respectively. However, enhanced mechanisms to allow for the negotiated, and if necessary, mandatory reallocation of S grant funding between municipalities will be introduced to ensure that the municipality responsible for delivering a service in a particular area is able to access the necessary financial support. Municipalities that fail to collect revenue will not be rewarded through this reallocation of the S grant component.

Conditional grants to local government

Schedule 5 of the Division of Revenue Bill presents the conditional grants to municipalities. Conditional grants are a small but significant portion of municipal revenue. In particular, conditional grants are used in order to:

- Incorporate national priorities in municipal budgets.
- Promote national norms and standards.
- Effect transition by supporting capacity-building and structural adjustments.
- Address backlogs and regional disparities in municipal infrastructure.

Although there are several administration and functional problems around conditional grants, no significant changes are made on the global allocations for conditional grants in the 2002 MTEF. However, significant changes are introduced in the policy framework underlying some of the grants, particularly in infrastructure and capacity-building. What follows below is a summary of all the conditional grants listed in the Schedule 5 of the Bill. In addition, the Appendix to this memorandum contains more detailed information on every local government conditional grant.

Capacity-building grants

Many municipalities lack effective financial management, planning and project management capacity. Several grants therefore support municipal capacity-building.

The range of programmes administered by different national departments is fragmented and has not delivered substantial improvements in municipal capacity to date. Government intends to move toward one consolidated local government capacity-building programme, governed jointly by a multi-departmental team at the national level. A rationalised, co-ordinated approach toward municipal capacity-building should:

- Encourage national departments to be more transparent about their capacity-building programmes and provide measurable outputs in this regard
- Stabilise municipal budgets and build strong financial management practices upon which other reforms can be implemented and infrastructure and services expanded
- Foster linkages between integrated development planning, spatial planning, and the budget process
- Develop project management skills in municipalities.

The Municipal Systems Improvement Programme was created in the 2001 Budget to serve as a conduit / medium to move towards consolidation of these capacity- building initiatives.

Restructuring grants

Restructuring support to large and smaller municipalities is effected through the Restructuring Grant and Local Government Support Grant respectively. The Restructuring Grant provides an opportunity for large municipalities to access funding to implement medium-term fiscal and institutional restructuring exercises, on the basis of their own restructuring plans. It is a demand-driven grant that encourages municipalities to become financially self-sustaining in the medium- to longer-term. The Local Government Support Grant assists smaller municipalities in financial crisis through both management support and emergency funding. The grant is increasingly focused on assisting these municipalities to restructure their medium-term fiscal positions and thus avert future crises.

Both grant programmes are projected to decrease in the medium-term, due to limited take-up of funding to date and the implementation of strategic capacity-building programmes.

Table E-15 Capacity-building and restructuring grants

R millions	2000/01	2001/02	2002/03	2003/04	2004/05
Total capacity-building and restructuring[1]	566	600	818	838	869

1. Includes recurrent transfers scheduled for consolidation such as the Municipal Systems Improvement Programme, the Local Government Support Programme, the Financial Management Grant and the Restructuring Grant.

Capital transfers to local government

Studies of the efficacy of existing municipal infrastructure grant disbursement mechanisms have identified the need to rationalise the number of grants to municipalities and to improve the mechanisms for the disbursement of these transfers. These proposals come in response to problems of inequity in grant distributions, as well as flaws in arrangements for financial accountability identified by National Treasury and the Auditor-General. Rationalising and decentralising disbursement arrangements will offer clear benefits with regard to the sustainability of infrastructure investments, the transparency of allocations, and accountability for outcomes.

Grant rationalisation and disbursement reform correlate with recommendations on fiscal transfers. Moreover, such changes are opportune in the current stage of the local government transition, as they provide municipalities with a degree of fiscal certainty in a time of rapid change.

The Consolidated Municipal Infrastructure Programme (CMIP) has been transformed from a project-based disbursement mechanism to a formula-based mechanism in the 2001/02 financial year. This approach will serve as a framework for one overall capital infrastructure grant mechanism governed by an interdepartmental team. Consolidation of transfers and greater transparency in the allocation process will allow challenges related to co-ordination between the infrastructure and housing programmes to be addressed.

Table E-16 Capital transfers to local government

R millions	2000/01	2001/02	2002/03	2003/04	2004/05
Total capital transfers[1]	1 970	2 487	3 080	3 694	3 784

1. Includes infrastructure transfers scheduled for consolidation such as CMIP, the Rural Water Programme, the LED Fund and the Community Based Public Works Programme.

As CMIP is the most appropriate vehicle for a rationalised capital grant programme, CMIP funding is expected to increase to R1 491 million in 2004/05. This will enhance assistance to municipalities in extending basic infrastructure services. The scope of CMIP funding will be expanded to include the rehabilitation of existing infrastructure, as well as infrastructure extension. Outside of new (greenfield) housing developments, CMIP funding will not be restricted to bulk and connector infrastructure only. However, CMIP will continue to prioritise the funding of bulk and connector infrastructure in support of housing programmes.

The rationalisation of the capital transfers to municipalities through the incorporation of other capital grants into CMIP is expected to be complete by 2004/05. These grants include the Community Water Supply and Sanitation Programme, the Community Based Public Works Programme, the Urban Transport Fund and the Local Economic Development Fund. A framework for the phased consolidation of these programmes will be published shortly. The framework will also address the respective roles and relationships between infrastructure grants, municipal own revenue (such as that derived from RSC levies) and municipal borrowing.

Consultations over the implementation of the reforms to conditional grants are taking place at present, with the intention to complete these in time for the 2002 Budget. Measures being discussed include:

- The appropriate phasing of the consolidation of infrastructure grants into a single, large grant to begin in the 2002/03 financial year
- The development of a framework for the coordination and consolidation of capacity building grants
- The incorporation of grants-in-kind, such as the Water Services Operating Subsidy, into the equitable share for local government.

The end result of this process will be a more simple system of three or four large grants that responds directly to government's key policy objectives. Consolidation will improve coordination between the objectives, provide an easier framework for administration and the measurement of performance, and ensure that the distribution of grant between municipalities is transparent, predictable, policy-sensitive and fair.

Further Work on Local Government Grants

The National Government intends to publish three-year allocations to municipalities for all grants by Budget Day. This will, however, require progress on the division of functions between category B and C municipalities and on progress on the framework for the infrastructure and capacity-building grants.

Appendix E1

Conditional grants to provinces

Introduction

This appendix provides a brief description of the framework for each grant to provincial governments. The following are key areas considered for each grant:

- Purpose and measurable objectives of the grant
- Conditions of the grant (additional to what is required in the Bill)
- Criteria for allocation between provinces or municipalities
- Rationale for funding through a conditional grant
- Monitoring mechanisms
- Past performance
- The projected life of the grant
- The payment schedule
- Capacity and preparedness of the transferring department
- Further work by national departments before the budget day

Health grants

Table 1 Summary of health grants

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04	2004/05
National Tertiary Services	3 453 080	3 666 842	3 892 849	4 151 542
Professionals training and Development	1 234 090	1 279 248	1 299 475	1 393 366
Hospital rehabilitation programme	500 000	520 000	543 400	576 004
Durban and Umtata hospitals	103 800	-	-	-
Pretoria Academic Hospital	50 000	70 000	90 000	-
Integrated Nutrition Programme	582 411	582 411	582 411	617 356
HIV/Aids	54 398	157 209	266 576	380 480
Total	**5 977 779**	**6 275 710**	**6 674 711**	**7 118 748**

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National Tertiary Service Grant	
Transferring department	Health (Vote 15)
Purpose	• To fund national tertiary services, as identified and costed by the Department of Health (DOH) • To ensure equitable access by all South Africans to basic tertiary health level care • To ensure collective planning for tertiary services
Measurable outputs	• Improvement in management information for identified hospitals • Admissions, outpatients and day cases per specialised service unit • Number of treated patients managed from outside each province
Conditions	• Creation of a separate cost and management center for each hospital identified for the 2002 Budget. • Appointment of a chief executive officer by 1 April 2002 for each hospital identified. • Delegation of management, accounting officer, procurement, hiring, disciplining and dismissal powers to chief executive officer by 1 April 2002. • Provision of designated national tertiary services. • Provision of services at activity levels as agreed between the Province and the national DOH. • Adoption of a restructuring plan for gaining provinces by 31 January 2002. • Agreements to be completed by 28 February 2002. • Provinces to include appropriate information in their strategic plans to be tabled within 15 days of their budget, and report in their annual report at end of financial year on utilisation of additional funds.
Allocation Criteria	• Cost of designated national tertiary services standardised between provinces to ensure "like for like" funding • Non-personnel costs based on service delivery levels • Should a province provide less than the agreed services, funding will be adjusted accordingly
Reason not incorporated in equitable share	• National tertiary services have spill-over benefits and need to be planned nationally and collectively • Funding for these services needs to be protected from provincial budgetary processes • These services benefit other provinces and the spillover costs cannot be covered by the equitable share formula.
Monitoring mechanisms	• To be determined by the national Department of Health by 31January 2002
Past performance	• New consolidated grant initiated in 2002/03 from the previous central hospital and redistribution grants • The central hospital grant provided disproportionate benefits for receiving provinces. The new funding mechanism will allow for all provinces to benefit. • Funds have been flowing to provinces according to payment schedules as these funds form part of general recurrent funding within the health budget.
Projected life	• The need to support the provision of tertiary services in provinces will continue into the foreseeable future.. The planning of the service configuration and the basis for the calculation of the grant will be constantly reviewed.
Payment schedule	• Equal monthly installments – normally on the 10th day of the month.
Capacity and preparedness of the transferring department	• The grant funds existing services and ongoing activities so the capacity to spend is in place. The national Department of Health has a designated unit to monitor the grant. There is a constant need to improve information on actual service delivery and costs to facilitate monitoring and planning.
Further work by national department	**2002/03** • Finalise all new grant arrangements, including agreements with all provinces by 31 January 2002 – improve service and cost data where necessary; assist gaining provinces to develop plans. • Design and distribute templates for business plans and monitoring arrangements by 31 January 2002 which are as simple and practicable as possible. • Initiate development of long term plan for tertiary services. • Investigate placing data on tertiary services including monitoring on website by 31 January 2002. • Investigate consolidating hospital management grant into this grant by 15 January 2001. • Submission of a payment schedule to the National Treasury by 31 January 2002.
	2003/04 and 2004/05 • Finalise long term plan for specific tertiary services

Table 2 National Tertiary Services Grant

R thousand	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	62 373	123 746	190 516	264 303
Free State	249 813	287 424	327 915	373 245
Gauteng	1 568 945	1 602 981	1 636 902	1 678 625
KwaZulu-Natal	427 525	480 679	537 752	601 853
Mpumalanga	37 588	38 413	39 237	40 249
Northern Cape	16 700	24 062	32 052	40 908
Northern Province	44 500	44 838	45 116	45 545
North West	34 200	34 189	34 107	34 111
Western Cape	1 011 436	1 030 510	1 049 252	1 072 703
Total	**3 453 080**	**3 666 842**	**3 892 849**	**4 151 542**

Health Professionals Training and Development Grant	
Transferring department	Health (Vote 15)
Purpose	• Support the training of health professionals. • Support provinces to fund service costs associated with undergraduate and post-graduate students training. • Development and recruitment of medical specialists in under-served provinces. • Enable shifting of teaching activities from central hospitals to regional and district facilities.
Measurable outputs	• Number and composition of health sciences students by province and institution. • Location of practical training placements by discipline and institution by level. • Expanded specialist and teaching infrastructure in target provinces.
Conditions	• Each province to publish in its strategic plan information as required by the national Department of Health, on the training of all medical personnel by institution, including any subsidies and other associated costs. • Submission by 31 January 2002 by provinces and national DOH of plan for deployment of additional registrars and specialists by gaining provinces and institutions showing current and proposed posts and related infrastructure. This information to be included in the provincial department's strategic plan to be tabled fifteen days after the tabling of the provincial budget. • Provinces to create and budget for additional posts related to registrars and specialists as agreed with national DOH and the deans of medical faculty in universities. • Timely submission of monitoring information as agreed with National Department of Health (DOH). This should include annual reports on additional numbers of registrars and specialists in gaining provinces. • Provinces to budget for community service posts as mutually agreed with the national Department of Health.
Allocation criteria	• A specific increment has been allocated to provinces without medical schools to develop specialist and teaching capacity. • The remaining funds are divided between the five provinces with medical schools on the basis of proportion of medical undergraduates; ten percent of the remainder is divided equally between the four provinces with no medical school. • Target allocations per province to be phased in over 5 year period, subject to annual review to accelerate the phase in period.
Reason not incorporated in equitable share	• Grant primarily targets certain provinces, which currently provide the bulk of health professionals training nationally. • Expansion and shifting of location of teaching activities requires national coordination.
Monitoring mechanisms	• Quarterly and annual reporting by provinces on number of students enrolled by discipline, level and training institution (frequency to be significantly decreased once national DOH has adequate database). • Quarterly and annual reporting by provinces the number and duration of practical placements by health sciences students by type/level of health facility (frequency to be significantly decreased once national DOH has adequate data-base). • Quarterly and annual reporting by targeted provinces on achievement of planned expansion of specialist and teaching infrastructure. • National department reports monthly on transfers.
Past performance	• Funds have been flowing to provinces according to payment schedules as these funds form part of general recurrent funding within the health budget.
Projected life	• The need to compensate provinces undertaking the bulk of training is likely to continue for the foreseeable future, but ongoing review of this grant continues to improve its alignment with national human resource development policy.
Payment schedule	• Equal monthly instalments – normally on the 10th working day.
Capacity and preparedness of the transferring department	• The grant funds ongoing activities, so the capacity to spend is in place. The department has designated an official to monitor the grant. Increased emphasis is being placed on ensuring compliance with monitoring requirements.
Further work by national department	**2002/03** • Ensure co-ordination of medical personnel with deans of medical faculties at university, and with provincial health departments • Develop simple minimum format for business plans and monitoring requirements • Continue research to improve and reconfigure this grant • Submit detailed payment schedule to the National Treasury by 31 January
	2003/04-2004/05 • Table new proposals to progressively improve this grant

Table 3 Health Professional Training and Development Grant per province

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04	2004/05
Eastern Cape	55 865	70 169	80 182	105 870
Free State	88 367	88 192	87 763	87 565
Gauteng	529 186	528 137	525 570	524 384
KwaZulu-Natal	154 388	160 495	156 178	179 303
Mpumalanga	24 377	30 347	34 456	45 277
Northern Cape	24 377	27 573	29 027	35 875
Northern Province	24 377	34 113	41 827	58 041
North West	24 377	32 058	37 806	51 077
Western Cape	308 776	308 164	306 666	305 974
Total	**1 234 090**	**1 279 248**	**1 299 475**	**1 393 366**

Hospital Revitalisation Grant	
Transferring department	Health (Vote 15)
Purpose	To transform and modernise hospitals in line with the national planning framework and to achieve sustainability.
Measurable outputs	• Number of hospital facilities upgraded and revitilised.
Conditions	• Strategic plan of provincial health department to be tabled 15 days after provincial budget must contain detailed information on hospital capital and maintenance projects, as well as the priorities identified in Strategic Position Statements. • Strategic plan to include full provincial strategic health services plan. • Compliance with Integrated national planning framework and reporting requirements. • Allocations in outer years will be dependent on progressive increases in maintenance budgets.
Allocation criteria	• The results of the CSIR 1995 hospital audit provided a basis for determining a backlog index, which is used as the basis for equitable division of funds between provinces. • The capacity of the province to spend the funds also plays a role. • Major capital construction or large projects identified as national priorities will also be funded from this grant.
Reason not incorporated in equitable share	To ensure that provincial health departments transform and modernise the hospital sector in line with nationally agreed goals.
Monitoring mechanisms	Monthly reporting on project implementation progress and financial flows to the national Department of Health.
Past Performance	**2000/01** • All funds were transferred to provinces, which reported under-spending of about R77 million • Under spending of the grant has occurred over the years mainly due to inflexibility of the present grant structure and poor provincial cash flow projections. • To-date the grant has been used mainly for rehabilitation and backlog maintenance of existing facilities rather than to support the restructuring of health facilities.
	Projections for 2001/02 • Cash-flows of currently committed projects indicate the grant allocation indicates that all funds will be spent, however, a small under-spending is expected.
Projected life	• This capital programme is expected to take at least 10 years to implement.
Payment schedule	• Four instalments – 18 April, 18 July, and 17 October 2002, 16 January 2003.
Capacity and preparedness of the transferring department	The department is supported by European Union (through resident consultants) and engages the services of the private sector to monitor progress in the implementation of the projects, and to provide necessary support to provinces.
Further work by national department	**2002/03 Budget** • Project implementation (business) plans and any other requirements finalised by 31 January 2002. • Submit to the National Treasury certification of completion of plans and any other requirements by 31 January 2001. • Complete new proposals for alternative allocation criteria. • Investigate the consolidation of the health component of the provincial infrastructure grant with this grant by 15 January 2001. • Submit a detailed payment schedule to the National Treasury by 31 January 2002
	2003/04 –2004/05 • Grant frameworks to be submitted as part of the departmental strategic plans and budget proposals for 2003 Budget by 30 June 2002 • Provincial spending prepared as part of departmental strategic plans and submitted with the 2003 Budget proposals by 30 June 2002

Table 4 Hospital Rehabilitation Programme per province

R thousand	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	69 000	81 000	84 645	89 724
Free State	16 000	17 000	17 765	18 831
Gauteng	102 000	105 000	109 725	116 308
KwaZulu-Natal	87 000	90 000	94 050	99 693
Mpumalanga	43 000	45 000	47 025	49 847
Northern Cape	10 000	10 000	10 450	11 077
Northern Province	88 000	92 000	96 140	101 908
North West	56 000	50 000	52 250	55 385
Western Cape	29 000	30 000	31 350	33 231
Total	**500 000**	**520 000**	**543 400**	**576 004**

Construction Grants – Pretoria Academic	
Transferring department	Health (Vote 15)
Purpose	To contribute toward the funding of new construction for Pretoria Academic Hospital in Gauteng,.
Measurable outputs	Completion of construction of hospitals.
Conditions	The departments of health of the provinces in which the hospitals are located will accept full responsibility to fund future operational costs of the hospitals, and to reflect this in their budgets
Allocation criteria	• Grant targeted to specific provinces: – Pretoria Academic allocation is R50 million in 2002/03 and R70 million. In 2003/04
Reason not incorporated in equitable share	This is funding designated for central and academic hospital, which will deliver mostly tertiary and quaternary services to benefit all provinces.
Monitoring mechanisms	Status reports are received regularly and the construction site is visited every 2-3 months for progress assessment. When the commissioning stage has started the frequency of reports and site visits will increase to once a month.
Past performance	Conditional grants have been allocated for the construction of the Nkosi Albert Luthuli Academic hospital in KZN (Durban Academic) and Nelson Mandela Academic (Umtata) hospital in the Eastern Cape in the past three years.
Projected life	• Nkosi Albert Luthuli hospital grant phased out in 2001/02 • Funding for Pretoria Academic phases out in 2003/04.
Payment schedule	Four instalments – 18 April, 18 July, and 17 October, 2002, 16 January 2003.
Capacity and preparedness of the transferring department	The department is adequately prepared to monitor the implementation of this programme by the province.
Further work by national department	Investigate the possibility of incorporating this grant into hospital revitilisation grant

Integrated Nutrition Programme	
Transferring department	Health (Vote 15)
Purpose	To improve the nutritional status of South Africans; specifically to enhance active learning capacity and improve school attendance of primary school learners from poor households.
Measurable outputs	• Increase in the coverage of primary schools that qualify for the feeding programme. • Increase in the coverage of planned school feeding days from 85 percent to 100 percent • Reduction in underweight, stunting and wasting among children under 5 years. • Regular growth maintaining and promotion of children under 2 years old. • Elimination of micro-nutrient deficiencies.
Conditions	• Feeding in all poor primary schools is the priority of this grant • Compliance with standardisation criteria determined by the Director General including menus, feeding days, cost per meal. • Creation of a specific subprogram of financial information system of provinces to monitor expenditure. • Greater role of school boards in monitoring program. • All provinces to report on actual spending on a monthly basis.
Allocation criteria	• 1991- population census (6–14 years) and the poverty gap data were used as poverty index to determine the allocations between provinces.
Reason not incorporated in equitable share	This programme started, as Presidential Lead Project under the RDP. The RDP allocations became a conditional grant in order to ensure continued funding of this grant. Given the current concerns with the effectiveness of the programme, this funding mechanism is being reviewed.
Monitoring mechanisms	• Provinces must report annually to the national Department of Health the number of schools (per district) that qualify for the feeding programme, and the number of schools that are actually being reached by the feeding programme. • Progress reports covering scope of funding • Monitoring visits
Past performance	**2000/01** • Although funds have been flowing as scheduled, under-spending has occurred at provincial level. It amounted R48 million in 2000/01.
	Projections for 2001/02 • Projects that all funds will be spent.
Projected life	Options will be considered for this grant following comprehensive review of administrative problems and effectiveness of the grant.
Payment schedule	Four instalments – 18 April, 18 July, and 17 October, 31 December
Capacity and preparedness of the transferring department	The department has a dedicated directorate for the administration of the INP
Further work by national department	**2002/03** • Submission of detailed payment schedule to the National Treasury by 31 January 2002 • Review the effectiveness of the grant and propose options for improvement by 30 June 2002 in order to inform the 2003 Budget. • Co-ordination with national and provincial education departments. • Stepping-up of forensic and in-year random inspections to ensure grant reaches intended beneficiaries. • The Department to submit certification of completion of plans and any other requirements to National Treasury by 19 March 2002.
	2003/04 and 2004/05 • Table proposals on the grant framework based on the recommendations of the review by 30 June 2002.

Table 6 Integrated Nutrition Programme

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04	2004/05
Eastern Cape	131 838	131 838	131 838	139 748
Free State	39 394	39 394	39 394	41 758
Gauteng	54 673	54 673	54 673	57 953
KwaZulu-Natal	132 471	132 471	132 471	140 419
Mpumalanga	39 728	39 728	39 728	42 112
Northern Cape	10 096	10 096	10 096	10 702
Northern Province	106 032	106 032	106 032	112 394
North West	39 390	39 390	39 390	41 754
Western Cape	28 789	28 789	28 789	30 516
Total	**582 411**	**582 411**	**582 411**	**617 356**

HIV/AIDS Grant – Health Department	
Transferring department	Health (Vote 15)
Purpose	To enable the social sector to develop an effective integrated response to the HIV/Aids epidemic, focusing on children infected and affected by HIV/AIDS. The responsibility for health include: • Expanding access to voluntary HIV counselling and testing (VCT) • Funding 2 pilot sites of mother to child prevention program per province and roll-out of program once Department of Health is satisfied with performance in pilot sites • Strengthening of provincial program management teams • Implementation of home based care as a management option • Implementation of step-down care as a management option.
Measurable outputs	• Increased access to voluntary counselling and testing to 12,5 percent of adult population aged between 15-49 years within three years, with specific targets for the youth and rural communities. • Number of teachers trained as lay counsellors. • Number of health districts which have voluntary counselling and testing facilities. • Develop 200 home based care teams over the next three years. • A decrease in the number of children born to HIV positive mothers.
Conditions	• Business plans in line with the National Integrated Plan must be developed for approval by the head of provincial and national Health Department (not a condition – this should be part of strategic plan of the dept, to be tabled 14 days after their budget). • Quarterly progress reports to be submitted. • Interventions to address under-spending to be implemented. • Appropriate usage of additional funds for HIV/AIDS allocated via the equitable share for improved Sexually transmitted disease, TB control and other health care interventions. • Clinics involved in administering PMTCT should be offering antenatal care (ANC) services. • The PMTCT programme should be administered by trained people.
Allocation criteria	Based on the national survey conducted in 1999 on the status and availability of voluntary counselling and testing in all provinces which also informed the decision to prioritise Eastern Cape, KZN, Northern Province and North West provinces.
Reason not incorporated in equitable share	• National priority. • Distribution of epidemic differs from equitable share distribution.
Monitoring mechanisms	• System for quarterly reporting on progress is in place. • Provincial liaison and technical support visits by members of the national Department of Health. • Regular meetings by the National Steering Committee.
Past performance	**2000//01** • All funds were transferred to provinces, which reported under-spending of about 30 percent. • The reasons for under-spending were that the provinces received funds very late and lack of capacity building at the provinces. • Counsellors lay counsellors and mentors have been trained towards implementation of VCT programme. • Rapid test kits were purchased.
	Projections for 2001/02 • Although spending is progressing slowly, provinces project that all funds will be spent.
Projected life	For duration of the allocation.
Payment schedule	Three instalments – 18 April, 15 August and 12 December 2002
Capacity and preparedness of the transferring department	The structures for planning, co-ordinating and monitoring the implementation of the programme are in place. The department is in the process of appointing additional staff, mainly co-ordinators at provincial and national level.
Further work by national department	**2002/03 Budget** • Project implementation (business) plans and any other requirements finalised by 31 January 2002 • Submit to the National Treasury certification of completion of plans and any other requirements by 19 March 2001 • Submit the payment schedules to the National Treasury by 31 January 2002
	2003/04 –2004/05 • Grant frameworks to be submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002. • Provincial spending prepared as part of departmental strategic plans and submitted with the 2003 Budget proposals.

Table 7: HIV/AIDS Grant to Provinces per Department

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04	2004/05
Health	54 398	157 209	266 576	380 480
Education	63 500	142 000	117 400	124 924
Social Development	12 500	46 500	64 235	68 185
Total	**130 398**	**345 709**	**448 211**	**573 589**

Table 8 Health HIV/AIDS Allocation

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04	2004/05
Eastern Cape	6 281	21 130	37 947	56 751
Free State	4 716	13 953	23 235	31 775
Gauteng	5 630	23 253	40 706	58 863
KwaZulu-Natal	13 924	39 260	63 523	88 996
Mpumalanga	4 659	15 606	25 621	34 852
Northern Cape	4 665	14 134	24 432	34 808
Northern Province	5 555	6 712	9 255	11 137
North West	4 640	14 401	27 215	41 976
Western Cape	4 328	8 760	14 642	21 322
Total	**54 398**	**157 209**	**266 576**	**380 480**

Education Grants

Financial Management and Quality Enhancement	
Transferring department	Education (Vote 14)
Purpose	To improve financial management in the education system and improve the quality of education in schools.
Measurable outputs	• Improved school effectiveness by prioritising district and school management and governance development, teacher development, and by targeting the identified areas for rural development and urban renewal. • Improved school safety targeting crimes such as , drugs, vandalism, racism and also introducing youth development programmes such as music, sport, art and culture, including indigenous games. • Improved matric results by targeting schools that obtained a pass rate of 0 – 30% in the 2001 matriculation. • Improved learner participation in and the effective teaching of mathematics, science and technology, also targeting disadvantaged female learners to enter gateway subjects and critical professions. • Improved assessment of learner performance in grades 3, 6 and 9. • Improved environment of schools in the nodal areas will be achieved through cleaning. • Improved systems for the new General Education and Training Certificate and systems in the Further Education and Training Band will be realised. • Development of effective Education Management Information Systems and utilisation for planning, financial management in the education system and learner support material procurement, supply and retrieval.
Conditions	• Provincial business plans with the focus on the above and other agreed upon outputs must be approved by the Accounting Officer of the national Department of Education by 31 January 2002. These plans must be published in each provincial department's strategic plan for the 2002 Budget. The national department must also publish more details of this grant in its own strategic plan. • The outputs as outlined in the approved business plans must be achieved • The conditional grant cannot be used to cover recurrent costs such as rates and taxes, salaries and to erect buildings.
Allocation criteria	Education component of the provincial equitable share formula.
Reason not incorporated in equitable share	Enables the National Department of Education to play an oversight role over the implementation of national education priorities for improvement in management and outputs of the education system.
Monitoring mechanisms	• The Department of Education has scheduled inter-provincial meetings to be held once every two months to discuss progress on projects under this programme • On-site inspection visits by project managers • Performance monitoring and evaluation will be conducted by the national department in collaboration with provincial departments of education using mutually agreed upon criteria.
Past performance	**2000/01** • Spending trends – all funds were transferred to provinces, but were not all spent, with under-spending amounting to R56,7 million • The department of education has established a management system that ensures timeous development of project plans and reporting on the grant • Implementation of national initiatives such as the preparations for the establishment of General Education and Training Certificate (GETC) across the education system and tools for assessing the performance of schools. • Overalls 9% improvement in the 2000 matric pass rate.
	Projections for 2001/02 • Higher expenditure on projects than in the previous financial year • Development of effective tools and mechanisms for learner assessment and the performance of schools in the education system • Development of an effective system to guide the process of the transformation of institutions in the FET sector.
Projected life	The allocation of this grant is still envisaged to continue for at least the current MTEF years [2002/3 until 2004/05].
Capacity and preparedness of the transferring department	• The overall co-ordination of the programme is the responsibility of the Policy Support Directorate in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, chaired by the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant. • Coordination with the Provincial Education Departments is realized through the inter- provincial meetings that happen every eight weeks. The individual project managers at national have also developed the own system of coordinating with the provinces.
Payment schedule	Four installments (5 April 2002, 5 July 2002, 4 October 2002 and 5 January 2003).

Further work by national department	**2002/03** • Provincial spending (business) plans completed by 31 January 2002 • The Department to submit certification of completion of plans and any other requirements to National Treasury by 19 March 2002 • Detailed payment schedule to be submitted to National Treasury by 31 January 2002.
	2003/04 and 2004/05 • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002 • Provincial spending plans prepared as part of departmental strategic plans and submitted with the 2003 Budget by 30 June 2002.

Table 9 Financial Management and Quality Enhancement Grant

	2001/02	2002/03	2003/04	2004/05
R thousand	**Budget**	**Medium Term Estimates**		
Eastern Cape	39 405	41 500	43 367	45 969
Free State	13 419	14 132	14 768	15 654
Gauteng	26 199	27 591	28 833	30 563
KwaZulu-Natal	47 073	49 575	51 805	54 914
Mpumalanga	15 549	16 375	17 112	18 139
Northern Cape	4 047	4 262	4 454	4 721
Northern Province	33 441	35 218	36 803	39 011
North West	17 040	17 946	18 753	19 878
Western Cape	16 827	17 721	18 519	19 630
Total	**213 000**	**224 320**	**234 414**	**248 479**

Early Childhood Development Grant (ECD)	
Transferring department	Education (Vote 14)
Purpose	To provide children eligible for the Reception Year with access to a quality education and care programme, particularly the poor communities.
Measurable outputs	• 3,000 Licensed Grade R practitioners. • 3,000 Registered community based ECD sites. • 90,000 Learners able to continue their learning in the Foundation Phase. • 25 Training providers applied for accreditation. • National Certificate in ECD. • 3,000 Basic educational kit of learning materials for each learning site.
Conditions	• Annual provincial business plans with focus on the above outputs must be approved by the Accounting Officer of the national Department of Education by 31 January 2002. These plans must be part of provincial strategic plans to be tabled 15 days after the Budget. • The outcomes as outlined in the approved business plans must be achieved
Allocation criteria	Education component of the equitable share formula is used to allocate amongst provinces.
Reason not incorporated in equitable share	Enables the Department of Education to provide overall direction such that congruency, coherence, and alignment with the agreed upon National ECD Strategy and the National Framework Plan for ECD is ensured, and also enables the Department of Education to play an oversight role over the implementation of the pilot ECD programme in Primary Schools and selected community based sites in the provinces.
Monitoring mechanisms	**Quarterly review** • The Department of Education in collaboration with the responsible provincial officials will conduct these reviews. The reviews will be targeted at projects in which expenditure levels are lower or significantly higher than the projected figures in the business plans following an analysis of monthly cash flow statements on the projects. This exercise is intended to deal with difficulties in the implementation of projects by providing the necessary support in good time. **Mid year Review** • This is a substantive review exercise intended for all national and provincial projects under this programme. It will focus on the financial and programmatic issues on all projects with the view to assessing the impact and identifying key systemic problems that need to be confronted in the education system. There will be broad consultations between the national and provincial officials to finalise details on this matter.
Past performance	• Grant introduced in 2001/02 budget • **Projections for 2001/02** - Financial and administrative systems are in place in the provinces to administer this new programme. - National and provincial coordinators contracted to support implementation of the project.
Projected life	Conditional grant funding for this programme phases out in 2003/04, thereafter, it will be funded partly from equitable share.
Payment schedule	Quarterly installments (5 April, , 5 July, and 4 October 2002 and 5 January '03)
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education chaired by the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant.
Further work by national department	**2002/03** • Provincial spending (business) plans to be completed by 31 January 2002 • The department to submit certification of completion of plans and any other requirements to the National Treasury by 19 March 2002 • Submission of payment schedule to the National Treasury by 31 January 2002

Table 10 Early Childhood Development

R thousand	2001/02 Budget	2002/03 Medium Term Estimates	2003/04
Eastern Cape	3 885	9 620	16 280
Free State	1 323	3 276	5 544
Gauteng	2 583	6 396	10 824
KwaZulu-Natal	4 641	11 492	19 448
Mpumalanga	1 533	3 796	6 424
Northern Cape	399	988	1 672
Northern Province	3 297	8 164	13 816
North West	1 680	4 160	7 040
Western Cape	1 659	4 108	6 952
Total	**21 000**	**52 000**	**88 000**

HIV/Aids GRANT - EDUCATION	
Transferring department	Education (Vote 14)
Purpose	• To ensure access to an appropriate and effective integrated system of prevention, care and support for children infected and affected by HIV/AIDS • To deliver life skills and HIV/AIDS education in primary and secondary schools.
Measurable outputs	• An additional 200 Trained master trainers • An additional 15 000 Trained Primary and Secondary school teachers • Implementation of the life skills programmes in an additional 35 percent primary schools and secondary schools.
Conditions	• Provincial business plans with the focus on the above outputs must be approved by the Accounting Officer of the national Department of Education by 31 January 2002, these plans for be form part of strategic plans to be tabled 15 days after the Budget. • The outcomes as outlined in the approved business plans must be achieved
Allocation criteria	Education component of the equitable share formula is used to allocate amongst provinces.
Reason not incorporated in equitable share	To enables the Department of Education to provide overall direction such that congruency, coherence, and alignment with the National Strategy for HIV/AIDS and the National Integrated Plan for Children Infected and Affected by HIV/AIDS is ensured, and also enables the Department of Education to play an oversight role over the implementation of life skills programmes in primary schools and secondary schools.
Monitoring mechanisms	• Departments of Education, Health and Social Development will schedule inter-departmental and inter-provincial meetings. • Monitoring and evaluation will be conducted by the national Department of Education.
Past performance	**2000/01** • Spending trends – 23 percent of the allocation was spent • 11 HIV/AIDS provincial coordinators have been appointed during this financial year. To improve communication with provincial coordinators computers have been obtained.
	Projections for 2001/02 • HIV/AIDS and life skills education is integrated in the school curriculum. At least 50 Master trainers are being trained in each province, which in turn will train school teachers. • 30 percent of primary and secondary schools teachers are being trained and supplied with the relevant learning support material.
Projected life	It is envisaged that, given the nature of the epidemic, the need for such a grant will be necessary as long as the epidemic of HIV/AIDS .
Payment schedule	Two installments (1 April 2002 and 1 October 2002).
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, under the chairmanship of the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant.
Further work by the national department	**2002/03** • Provincial spending (business) plans to be completed by 31 January 2002 • The department to submit certification of completion of plans and any other requirements to the National Treasury by 19 March 2002 • Submission of payment schedule to the National Treasury by 31 January 2002
	2003/04 • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002 • Provincial spending plans to be prepared as part of strategic plans to be submitted with the 2003 Budget proposal by 30 June 2002.

Table 11 Education - HIV/AIDS Allocation

R thousand	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	11 747	26 270	21 719	23 111
Free State	4 001	8 946	7 396	7 870
Gauteng	7 810	17 466	14 440	15 366
KwaZulu-Natal	14 033	31 382	25 945	27 608
Mpumalanga	4 636	10 366	8 570	9 119
Northern Cape	1 207	2 698	2 231	2 374
Northern Province	9 969	22 294	18 432	19 613
North West	5 080	11 360	9 392	9 994
Western Cape	5 017	11 218	9 275	9 869
Total	**63 500**	**142 000**	**117 400**	**124 924**

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Thuba Makote: Schools as Centers for Community Development - Poverty Relief Allocation (Indirect transfer)	
Transferring Department	Education (Vote: 14)
Purpose	To develop and pilot a cost effective approach to the design, construction and management of school facilities which will also meet the developmental needs of rural communities (i.e. The approach envisaged will be flexible and designed to be adapted to suit the particular needs of communities).
Measurable Outputs	• The programme will develop 27 schools in rural areas in each province identified as being of greatest need. • Completion and hand over of first 9 pilot schools, 1 in each province, which were initiated in 2001/02. • An evaluation report on the success of the first 9 projects, recommendations used to finalise project • proposals for 18 more schools • Construction of 18 multi-functional schools
Conditions	• The Thuba – Makote Programme is funded from the Poverty Relief, Infrastructure Investment and Jobs Summit Projects Fund and must thus adhere to the requirements of job creation in the development, building, equipping and utilisation of facilities • The programme must include job opportunities for local people in the areas selected for the development of the centers and must ensure that women, the youth (younger than 25 years) and the disabled are included in employment • Skills training and transfer to the local people must be a major focus in the conceptualisation of the programme • Capacity building of the school community for the effective maintenance and management of the facilities must also be included in the programme.
Allocation criteria	• For 2001/02 the amount was divided equally amongst the provinces • For 2002/03 and 2003/04 the backlog in infrastructure in provinces was taken into account in the division of the funding to provinces.
Reason not incorporated in equitable share	The programme aims to develop and pilot models, which will provide a new approach to the design, construction and management of school facilities. It is therefore important to ensure that the programme provides innovations in these areas and it thus needs to be managed from a national level.
Monitoring mechanisms	• The implementation of the projects will be monitored and supported through a steering committee comprising representatives from provincial education departments and other appropriate organisations. • The national Department of Education will appoint an implementing agency for the programme (consultant). • Each pilot project site will be visited regularly by the consultant to monitor project progress (infrastructure and institutional development), ensure appropriate quality control, minimise disturbance of educational activities in existing school facilities and avoid any injury to learners and staff as well as the general public. • Monthly progress against milestones and expenditure against budget reports for approved pilot projects must be submitted by the consultant before or on the 7th day of each month to the programme manager of the national Department of Education. These reports must be in line with the PFMA reporting requirements. Monthly reporting on programme status is required from the first month of the contract duration. • It is also required to compile and submit comprehensive quarterly reports to the Department of Education that must be in line with the reporting requirements set by National Treasury for the special allocations for poverty alleviation, infrastructure and job summit projects.
Past Performance	**Projections for 2001/2002:** • The Department implements the project through an implementing agency. By the end of the financial year the first of the two planned phases for the current financial year will have been completed. This amounts to an estimated 10% expenditure. A roll-over will be requested to fund the 9 building projects which have been committed through the tender. • The tender process took longer than anticipated to complete. The remaining two tenders will be compiled in advance to ensure that spending for the remaining two years will be within the set time frames.
Projected life	The allocation of this grant is still envisaged to continue until 2003/04.
Payment schedule	Not applicable (Indirect Transfer) – accountability remains with the national department's accounting officer
Capacity and preparedness of the transferring department	• An implementing agency will be appointed • The Department of Education has established a Directorate: Physical Planning and has appointed the Director: Physical Planning as the Programme Manager of the project.

Table 12 Education – Thuba - Makote: Schools as Centres for Community Development

R thousand	2001/02	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	5 400	5 000	10 700	
Free State	5 300	5 000	10 700	
Gauteng	5 300	4 000	5 300	
KwaZulu-Natal	5 400	5 000	10 700	
Mpumalanga	5 300	5 000	10 600	
Northern Cape	5 300	-	-	
Northern Province	5 400	5 000	10 700	
North West	5 300	5 000	5 300	
Western Cape	5 300	-	-	
Total	**48 000**	**34 000**	**64 000**	

National Ikhwelo Projects – Poverty Relief Allocation (Indirect Transfer)	
Transferring department	Education (Vote 14)
Purpose	The overall goal of the project is to provide access to skills development in General Education and Training for adult learners to enhance their social and economic capacity.
Measurable outputs	• 450 Educators/trainers and employed to train adults agriculture and SMME learning programmes in addition to literacy. • 9 000 adults engaged in lifelong learning. • 480 Governing bodies and center managers capacitated to govern and manage.
Conditions	• The National Ikhwelo Project is funded from the Poverty Relief, Infrastructure Investment and Jobs Summit Projects Fund and must thus adhere to the requirements of job creation in the development, building, equipping and utilisation of the facility. • The programme must include job opportunities for local people in the areas selected for the development of the centres and must ensure that women, the youth (younger than 25 years) and the disabled are included in employment.
Allocation Criteria	The illiteracy rates in provinces as well as the socio economic conditions of the provinces were taken into account
Reasons not incorporated in equitable share	Special allocation from the national Poverty Relief Fund
Monitoring mechanisms	• Quarterly progress reports in line with the reporting requirements set by National Treasury for the special allocations for poverty relief, infrastructure and job summit projects • National Committee of provincial Adult Basic Education and Training (ABET) heads together with the Directorate Adult Education and Training monitor and provide progress reports to the Director-General.
Past Performance	New project . **Projections for 2001/02:** • It is expected that R14,8 million will be utilised by 31 March 2001. • During the 2001/02, learning support materials and training of educators in governance, agriculture, SMME, monitoring and evaluation will be provided. Furthermore, the procurement of learner support materials and equipment, advocacy, and learning programmes, will take place during this financial year.
Projected life	The allocation of this grant is still envisaged to continue until 2003/04.
Payment Schedule	Not applicable (Indirect transfers to provinces) – Accounting responsibility lies with the accounting officer of the transferring national department
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, under the chairmanship of the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant.
Further work by national department	• The Department of Education will provide programmes in the eight learning areas to complete a qualification. • The Department will also provide managers in these public adult learning centres.

Table 13 Education – National Ikhwelo Projects

R thousand	2001/02	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	4 625	7 400	9 250	
Free State	1 575	2 520	3 150	
Gauteng	3 075	4 920	6 150	
KwaZulu-Natal	5 525	8 840	11 050	
Mpumalanga	1 825	2 920	3 650	
Northern Cape	475	760	950	
Northern Province	3 925	6 280	7 850	
North West	2 000	3 200	4 000	
Western Cape	1 975	3 160	3 950	
Total	**25 000**	**40 000**	**50 000**	

The National Treasury Grants

Supplementary Allocation Grant	
Transferring department	National Treasury (Vote 7)
Purpose	• Supplementing provincial budgets in order to ensure that provinces budget adequately for health, welfare, education, and other priorities as agreed between provinces and national government. • Ensuring that provinces make progress in implementing the PFMA and improving financial management. • Enabling provinces to provide for functions for which grants have been consolidated into the supplementary allocation.
Measurable outputs	• Budgets that provide adequate funding for the social services and conditional grants • Progress made in implementation of key provisions of PFMA (i.e functioning of internal audit units and audit committees, appointment of CFOs, etc) • Improvements in the quality of in-year monitoring reports (Section 40(4) PFMA and Division of Revenue Act reports) • Improvement in financial management and information systems in hospital pilot projects.
Conditions	• Compliance with the PFMA and Division of Revenue monthly reporting requirements and demonstrable progress in implementation of PFMA. • Realistic and credible budgets enacted by provincial legislature reflecting adequate funding of health, education, welfare, housing and infrastructure. • Adequate steps taken to improve collection of own revenue, including the review of fees and administration. • Compliance with the Division of Revenue Act and national legislation contemplated in sections 228(2)(b) and 230 of the Constitution. • Compliance with agreements in the Budget Council and all relevant legislation. • Provision in the provincial transport budget for NLTTA; for hospital management improvement projects in health department, and for capacity building in housing department.
Allocation criteria	• R2 billion portion of the grant is allocated through the provincial equitable share formula, • The other portion is allocated according to the requirements of specific department (Housing – capacity building; Transport – NLTTA; and National Treasury – financial management).
Reason not incorporated in equitable share	Enables the National Treasury to play its oversight role over provincial finances and ensure implementation of budget and financial management reforms in the provinces.
Monitoring mechanisms	• Monthly in-year reports including conditional grants • Two provincial visits by the National Treasury to assess sustainability of the budgets in line with expenditure trends up to June/July, and a second in October/November as part of the provincial MTEC hearings, and to further assess the sustainability of the budgets based on actual expenditure up to six months • Quarterly reports on progress with PFMA implementation relative to provincial plans and targets • Quarterly reports on progress with the implementation of hospital management improvement projects to the national departments of health, public service and national treasury.
Past performance	• Provincial budgets are better aligned with national priorities, showing improvements in funding social services. • Budget process reforms are being implemented in provinces • The credibility of budgets has improved, and provinces have been able to turn their budgets around from deficit to surpluses used to repay debts • National Treasury has been able to fulfil its responsibility for monitoring over provincial budgets • Information submitted allows for section 32 PFMA quarterly reports and production of two Intergovernmental Fiscal Reviews.
Projected life	To be reviewed after four years.
Payment schedule	Two installments - 31 July and 30 November 2002
Capacity and preparedness of the transferring department	The National Treasury has a dedicated chief directorate on provincial fiscal relations and has developed a PFMA implementation guide (guide for accounting officers) and a PFMA implementation unit.
Possible changes to the Grant	This grant includes an allocation for the hospital management pilot programme managed by the Department of Health. Negotiations are under way with the Health department, which may result in a shift of this component to health grants. With provincial finances having stabilised on a sustained basis, and taking into account progress made with implementation of PFM, consideration is given to incorporate the main portion of this grant into the equitable share with effect from 2002/03 financial year.

Table 14 Components of Supplementary Allocation

R thousand	2001/02	2002/03	2003/04	2004/05
		Medium-term estimate		
Supplementary Allocation				
Eastern Cape	347 448	343 239	340 309	340 309
Free State	133 963	133 864	132 916	132 916
Gauteng	298 511	305 143	307 276	307 276
Kwazulu-Natal	407 772	407 590	411 266	411 266
Mpumalanga	139 172	141 099	143 547	143 547
Northern Cape	47 588	48 625	48 533	48 533
Northern Province	273 521	270 341	271 828	271 828
North West	167 478	167 306	166 050	166 050
Western Cape	184 547	182 793	178 275	178 275
Subtotal	**2 000 000**	**2 000 000**	**2 000 000**	**2 000 000**
Capacity-building (housing)				
Eastern Cape	1 100	1 100	1 100	1 100
Free State	1 100	1 100	1 100	1 100
Gauteng	1 100	1 100	1 100	1 100
KwaZulu-Natal	1 100	1 100	1 100	1 100
Mpumalanga	1 100	1 100	1 100	1 100
Northern Cape	1 200	1 200	1 200	1 200
Northern Province	1 100	1 100	1 100	1 100
North West	1 100	1 100	1 100	1 100
Western Cape	1 100	1 100	1 100	1 100
Subtotal	**10 000**	**10 000**	**10 000**	**10 000**
NLTTA (Transport)				
Eastern Cape	1 000	2 000	2 000	2 000
Free State	1 000	2 000	2 000	2 000
Gauteng	1 000	2 000	2 000	2 000
KwaZulu-Natal	1 000	2 000	2 000	2 000
Mpumalanga	1 000	2 000	2 000	2 000
Northern Cape	1 000	2 000	2 000	2 000
Northern Province	1 000	2 000	2 000	2 000
North West	1 000	2 000	2 000	2 000
Western Cape	1 000	2 000	2 000	2 000
Subtotal	**9 000**	**18 000**	**18 000**	**18 000**
Financial management				
Eastern Cape	7 000	9 000	14 000	14 840
Free State	11 000	11 000	11 000	11 660
Gauteng	37 000	34 000	28 000	29 680
KwaZulu-Natal	21 000	19 000	17 000	18 020
Mpumalanga	7 000	8 000	12 000	12 720
Northern Cape	6 000	7 000	8 000	8 480
Northern Province	7 000	9 000	12 000	12 720
North West	7 000	8 000	11 000	11 660
Western Cape	21 000	19 000	17 000	18 020
Subtotal	**124 000**	**124 000**	**130 000**	**137 800**

Table 15 Supplementary Allocation: Total grants to provinces

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	386 431	355 339	357 409	358 249
Free State	177 561	147 964	147 016	147 676
Gauteng	337 611	342 243	338 376	340 056
KwaZulu-Natal	455 029	429 690	431 366	432 386
Mpumalanga	153 003	152 199	158 647	159 367
Northern Cape	55 788	58 825	59 733	60 213
Northern Province	292 471	282 441	286 928	287 648
North West	182 336	178 406	180 150	180 810
Western Cape	207 647	204 893	198 375	199 395
Total	**2 247 877**	**2 152 000**	**2 158 000**	**2 165 800**

Provincial Infrastructure Grant	
Transferring department	National Treasury (Vote 7)
Purpose	To help accelerate construction, maintenance and rehabilitation of new and existing infrastructure, and to fund the reconstruction and rehabilitation of infrastructure damaged during the 1999/00 floods.
Measurable outputs	• Rehabilitation and maintenance of roads, schools, health facilities, and rural development • Rehabilitation of flood-damaged infrastructure.
Conditions	• Provinces to submit to the National Treasury by 31 January a detailed plan on proposed spending for the 2002/03 financial year for approval. The plan should also reflect how the province plans to utilise funds for 2003/04 and 2004/05. The plans must disaggregate the information by project or cluster of projects. These plans should form part of the treasury's strategic plan to be tabled 15 days after the Budget, as well as that of each of the line function departments receiving funds. • The plans must indicate the extent to which the province can appropriately match the allocations made to them and demonstrate how the implementation plan fits into an overall infrastructure strategy in that province • In addition to the above conditions, the following conditions apply specifically to the Flood Reconstruction and Rehabilitation portion of the grant: Funds allocated must be used exclusively for rehabilitation and reconstruction of flood damaged infrastructure as verified by the national government.
Allocation criteria	• *The Infrastructure Grant component:* An average of the percentage equitable shares and backlog component of equitable share formula has been used to allocate among funds provinces. The aim is to introduce a bias in favour of provinces with substantial backlogs while at the same time supporting those that inherited substantial infrastructure. • *The flood damage component:* The allocations were informed by the recommendations of the Command Center and took account of: - the overall verified infrastructure damage suffered in each province; - recommendations made by the Command Center; - expenditure trends in the current financial year, reflecting the rate of expenditure in the province; and - available funds The flood damage component phases out in the 2003/04 financial year.
Reason not incorporated in equitable share	This grant ensures that provinces give priority to infrastructure maintenance, rehabilitation and construction in line with Government priorities.
Monitoring mechanisms	• Provinces are required to submit detailed quarterly reports, which capture the full details of the projects including the allocation for the year, the expenditure for the period in question and on outputs achieved.
Past performance	**2000/01** • The R300 million allocations for infrastructure was used to support four provinces that were extensively affected by the flood disaster of 1999/2000. • Projections for 2001/02 • Spending on this grant started off very slow, it is expected that, there will be some under-spending, but with commitments already made on the allocations as spending plans are now in place.
Projected life	To be reviewed after five years.
Payment schedule	Four instalments: 24 May; 31 July; 31 October; 2002; and 23 January 2003
Capacity and preparedness of the transferring department	The National Treasury has a dedicated chief directorate responsible for administering the grant.
Further work by national department	**2002/03** • Provincial spending (business) plans to be completed by 31 January 2002. • Payment schedule submitted to provincial treasuries by 28 February 2002. **2003/04** • Provincial spending plans to be prepared as part of strategic plans to be submitted with the 2003 Budget by 30 June 2002.
Possible changes to the Grant framework	The National Treasury is investigating whether the education and health components of this grant can be consolidated with current conditional grants administered by the relevant national departments. Such decisions are dependent on progress made on spending during the 2001/02.

Table 16 Provincial Infrastructure: Infrastructure Grant

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	147 275	286 107	428 504	531 220
Free State	48 342	93 913	140 653	173 878
Gauteng	80 860	157 084	235 266	288 841
KwaZulu-Natal	170 447	331 123	495 925	612 837
Mpumalanga	61 236	118 961	178 168	220 569
Northern Cape	29 411	52 997	71 931	81 930
Northern Province	143 369	278 519	417 139	515 245
North West	69 536	135 086	202 320	250 472
Western Cape	49 524	96 210	144 094	177 848
Total	**800 000**	**1 550 000**	**2 314 000**	**2 852 840**

Table 17 Provincial Infrastructure: Flood Damage

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	130 000	70 000	23 000	
Free State	128 000	58 000	21 000	
Gauteng	-	-	-	
KwaZulu-Natal	12 000	-	-	
Mpumalanga	98 000	90 000	36 000	
Northern Cape	7 000	-	-	
Northern Province	196 000	182 000	120 000	
North West	11 000	-	-	
Western Cape	18 000	-	-	
Total	**600 000**	**400 000**	**200 000**	

Table 18 Provincial Infrastructure: Total

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	277 275	356 107	451 504	531 220
Free State	176 342	151 913	161 653	173 878
Gauteng	80 860	157 084	235 266	288 841
KwaZulu-Natal	182 447	331 123	495 925	612 837
Mpumalanga	159 236	208 961	214 168	220 569
Northern Cape	36 411	52 997	71 931	81 930
Northern Province	339 369	460 519	537 139	515 245
North West	80 536	135 086	202 320	250 472
Western Cape	67 524	96 210	144 094	177 848
Total	**1 400 000**	**1 950 000**	**2 514 000**	**2 852 840**

Housing Grants

Housing Subsidy Grant	
Transferring department	Housing (Vote 16)
Purpose	To finance subsidies under the national housing programme
Measurable outputs	• Number of subsidies financed – estimates 200,000 in 2001/02 • Number of housing units completed per province • Number of households benefiting.
Conditions	• Provincial business spending plans must be submitted to the Department of Housing by 31 January 2002. These plans should be included in the provincial strategic plans to be tabled 15 days after the Budget. • Provincial housing departments to ensure that all subsidy allocations for 2002/03 are allocated by 1 March 2002, and that effective consultation takes place with every category B municipality with a project within its boundary. Consultations with relevant line function departments providing grants or services must also be completed. • Provincial housing department to ensure that all subsidy allocations for 2003/04 are allocated by 30 October 2002, in consultation with every category B municipality, and in line with the Integrated Development Plan of that municipality and the category C municipality. • Provincial Governments have to set aside 0,5% to 0,75% per year to finance desperate housing needs. This will be providing for people who have no access to land, no roof over their heads, and who are living in intolerable conditions or crisis situations and excludes needs as a result of disasters; • Provincial housing departments to ensure more municipalities are accredited to take responsibility for housing delivery from 2002/03. • Housing allocations must be in terms of housing framework as agreed. • Provinces to modernise and reform accounting and classification systems in line with a framework approved by the national departments of housing and the national treasury.
Allocation criteria	Two formulas are used to allocate the funds for the 2002 MTEF. • The baseline allocations for provinces as reflected in the 2001 Division of Revenue Act remain unchanged and are allocated using a formula that is based on the number of households earning less than R3500 disaggregated into the different income category's for each subsidy level. The households in each income category are then weighted by the value of the subsidy amount for that income category. • The additional R300 million in 2003/04 and R579 million in 2003/04, and the total allocation of R4 346 million in 2004/05 are allocated to provinces through a new formula which introduces urban bias. The new allocation formula is based on: - The needs of each province as measured by the housing backlog. Backlog is a function of people who are homeless, staying in shacks, caravans, tents, backrooms and rooms in flats, and is assigned a weight of 50 per cent; - A poverty indicator as measured by the number of households earning less than R3 500 in each province and is weighted 30 percent; and - A population indicator as measured by each province's share of total population using statistics from 1996 Census and is weighted 20 percent.
Reason not incorporated in equitable share	The provision of housing to the poor is a national priority. The conditional grant enables the national government to provide for the implementation of housing delivery in provincial budgets.
Monitoring mechanisms	The national Department of Housing has installed a transversal computerised subsidy management system (HSS) in all provincial housing departments for the administration of the subsidy scheme and to allow the national department to monitor progress and expenditure continuously.
Past performance	**2000/01** • The number of subsidies approved in the last three years averaged 219 591 per annum, while the number of houses build during the same period were averaged 217 633 houses per annum, benefiting 2 676 886 people. • Currently funds that remained unspent at provinces in 2000/01 and in the Housing Fund collectively amounted to R519 million or 15% of funds available for spending. These amounts include R240 million (for each of Gauteng, Mpumalanga and KwaZulu-Natal at R80 million) earmarked for the implementation of the Presidential Job Summit projects for new Rental Housing subsidies delayed as result of extended discussions with National Treasury on the funding model and institutional arrangements for channeling of the funds for the project.
	Projections for 2001/02 • R3,2 billion will be transferred to provinces of which approximately 95% is expected to be spent by the provinces at the end of the year.
Projected life	Unless government directs otherwise and taking into account the level of backlogs in housing, it is anticipated that the need for funding will exist for at least 20 years.
Payment schedule	Monthly instalments
Capacity and preparedness of the transferring department	The national Department does have the capacity to manage and administer the transfer of housing funds to Provincial Governments and to monitor their performance in this regard continuously.

Further work by the national department	**2002/03** • Adjusted national planning framework taking into account medium-density housing to be presented in the strategic plan of the department as part of the 2002 Budget. • Provincial spending (business) plans to be completed by 31 January 2002 • The department to ensure that all provincial housing departments deal with the audit queries raised in the 2002 annual reports of provincial housing departments. • The department to submit certification of completion of plans to the National Treasury by 19 March 2002. • Submission of payment schedule to the National Treasury by 31 January 2002.
	2003/04 • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002. • Provincial spending plans to be prepared as part of strategic plans to be submitted with the 2003 Budget proposals by 30 June 2002.

Table 19: Housing Fund

	2001/02	2002/03	2003/04	2004/05
R thousands	**Budget**	**Medium Term Estimates**		
Eastern Cape	498 311	571 485	627 253	581 876
Free State	241 253	283 097	316 064	374 679
Gauteng	681 831	801 940	896 830	1 085 699
KwaZulu-Natal	617 647	708 759	778 263	727 186
Mpumalanga	208 355	242 038	268 228	288 030
Northern Cape	65 475	75 809	83 807	86 900
Northern Province	334 787	381 767	417 204	359 305
North West	256 735	302 001	337 769	409 400
Western Cape	321 564	372 778	412 480	433 357
Total	**3 225 958**	**3 739 674**	**4 137 898**	**4 346 432**

Human Resettlement and Redevelopment Pilot Programme	
Transferring department	Housing (Vote 16)
Purpose	To fund projects that aim to improve the quality of the environment by addressing problems in urban communities.
Measurable outputs	• Improvement of the quality of human settlements by funding projects, which will address dysfunctionalities in such settlements. The outputs of the programme depend largely on the unique content of each project funded in terms of the pilot programme. They will include: - Upgraded infrastructure in depressed areas and number of employment opportunities created; - The number of existing depressed areas re-planned and redeveloped, such as inner city redevelopment, urban renewal and informal settlement upgrading; and - Completed plans of areas which could promote integration (new developments).
Conditions	To form part of the contract between the provincial government and the national Department of Housing on specific projects.
Allocation criteria	Based on the project proposals submitted by province.
Reason not incorporated in equitable share	As a pilot programme, the Department of Housing needs to be involved in approving, monitoring and evaluating the programme in general as well as specific project outputs with a view to the formulation of a more comprehensive permanent programme.
Monitoring mechanisms	The Directorate: Special Programmes Support monitors projects on a monthly basis through financial and implementation progress reports, as well as site visits in order to ensure compliance and correct reporting on Key Performance Indicators.
Past performance	**2000/01 –** • of R39 million budgeted, R35 million was spent. The outputs, identifies in terms of key performance areas, have been achieved. **Projections for 2001/02** • It is expected that 70% to 80% of the funds will be spent by the end of the financial year, although all funds will have been committed to projects through approved business plans.
Projected life	The programme is an important tool in achieving functional human settlements, it is expected to continue until all settlement areas that need improvements are covered.
Payment schedule	Four quarterly installments
Capacity and preparedness of the transferring department	The Directorate: Special Programme Support is dedicated to manage this Programme and the necessary capacity and expertise exists to undertake this task.
Further work by the national department	**2002/03** • Provincial spending (business) plans to be completed by 31 January 2002. • The department to submit certification of completion of plans to the National Treasury by 19 March 2002. • Submission of payment schedule to the National Treasury by 31 January 2002. **2003/04** • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002. • Provincial spending plans to be prepared as part of strategic plans to be submitted with the 2003 Budget proposals by 30 June 2002.

Table 20 Human Resettlement and Redevelopment Grant

	2001/02	2002/03	2003/04	2004/05
R thousands	**Budget**	**Medium Term Estimates**		
Eastern Cape	8 500	10 000	11 000	11 660
Free State	5 000	7 500	8 500	9 010
Gauteng	26 000	23 000	21 000	22 260
KwaZulu-Natal	25 000	25 000	26 000	27 560
Mpumalanga	5 000	6 000	7 000	7 420
Northern Cape	1 000	2 500	3 000	3 180
Northern Province	10 000	11 000	11 000	11 660
North West	7 000	6 000	8 000	8 480
Western Cape	12 500	13 000	13 500	14 310
Total	**100 000**	**104 000**	**109 000**	**115 540**

Social Development Grants

Financial Management and Improvement of Social Security System	
Transferring department	Social Development (Vote 17)
Purpose	To improve the financial management, administration and functioning of social security system.
Measurable outputs	• An improved communication network and information service on all grant inquiries to enable speedier response to beneficiaries • Provision of functional, acceptable infrastructure and office automation tools to improve security and facilitate effective service delivery • Effective and efficient financial management and administration of social security payments and social development funds.
Conditions	Approved business plans by 31 January 2002 with measurable outputs must exist for each province in line with the framework for this grant
Allocation criteria	Based on needs of each province as determined from their business plans.
Reason not incorporated in equitable share	Funding was initiated in order to fund the national department priority and strategy for improving the information system, financial management and delivery of social security grants.
Monitoring mechanisms	• Monthly project progress reports by provinces • Quarterly evaluations by departmental staff and provincial facilitators • Structured site visits twice a year by a team consisting of both national and provincial officials.
Past performance	Transfers of funds have occurred as planned since the inception of the grant in 1998/99
Projected life	Phases out in 2002/03.
Payment schedule	Payments will be made in two tranches - in May and September 2001
Capacity and preparedness of the transferring department	• A number of initiatives being undertaken by the department will strengthen its capacity to deliver on the grant which include: - Restructuring of the department to strengthen its core functions including the establishment of a monitoring and evaluation unit for social security; - Appointment of financial expertise in the national and provincial departments to improve financial management in general and the management of conditional grants; and - Workshops on the Division of Revenue Act are expected to contribute towards improved management of the grants at the provincial level, including better reporting.
Further work by national departments	2002/03 • Provincial spending (business) plans completed by 31 January 2002. • The department to submit certification of completion of plans and any other requirements to the National Treasury by 19 March 2002. • Detailed payment schedule to be submitted to the National Treasury by 31 January 2002.

Table 21 Financial Management and Improvement of Social Security System[1]

R thousands	2001/02 Budget	2002/03
Eastern Cape	642	1 200
Free State	642	1 200
Gauteng	642	1 200
KwaZulu-Natal	642	1 200
Mpumalanga	642	1 200
Northern Cape	642	1 200
Northern Province	5 100	1 200
North West	642	1 200
Western Cape	642	1 200
Total	**10 236**	**10 800**

[1] *The grant is phased out after 2002/03*

Social Development – HIV/AIDS Grant	
Transferring Department	Department of Social Development (vote 17)
Purpose	The Department of Social Development is responsible for the development of home-based care (HBC) programmes in the community, involving the replication of models which have already been piloted, and community outreach.
Measurable outputs	• An increase in the number of orphans receiving appropriate care. • Intensified identification of children infected and affected by HIV/AIDS. • Provision of essential material assistance to identified children and families. • Strengthening the capacities of communities, families and volunteers through caring and support. • Provision of counseling services to children and families. • Establishment of effective local institutional structures and partnerships for management and maintenance of home and community-based care and support programmes.
Conditions	• Approved business plans with measurable outputs must exist for each province in line with the framework for this grant • Legal contract signed between provincial departments of welfare and implementing agencies.
Allocation criteria	• In developing the National Integrated Plan for HIV/AIDS, the following were guiding principles: - Provinces in which studies have shown they are of highest HIV/Aids prevalence, which were also identified as priority – Eastern Cape, KZN, Northern Province and North West provinces - Resources available in the provinces and linkages with the following programmes and strategies: - Urban renewal and rural development strategy - Poverty alleviation programme - Integrated Nutrition Programme.
Reason not incorporated in equitable share	• The National Integrated Plan for Children Infected and Affected by HIV/AIDS is a pilot programme involving three social services departments • The conditional grant provides the opportunity to establish a consistent approach across the provinces in terms of planning and implementation, and also enables more effective monitoring by the national departments.
Monitoring mechanisms	• Quarterly reporting by provinces and evaluation by Departmental staff/provincial coordinators. • Provincial visits to evaluate implementation of the programmes that under way. • Structured site visits twice a year by a team consisting of both Social Development and Health officials on the national and provincial level.
Past performance	**2000/01** • R2 million of the allocated R5 million was spent by provinces
	Projections for 2001/02 • Anticipates that all the allocated funds will be spent
Projected life	For the duration of the allocation.
Payment schedule	Three installments
Capacity and preparedness of the transferring department	The department has established a directorate do deal exclusively with HIV/AIDS, a national co-ordination for the programme is managed by the Department of Health. Provincial coordinators re being appointed.
Further work by national departments	**2002/03** • Provincial spending (business) plans completed by 31 January 2002 • The department to submit certification of completion of plans and any other requirements to the National Treasury by 19 March 2002 • Detailed payment schedule to be submitted to the National Treasury by 31 January 2002
	2003/04 and 2004/05 • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002 • Provincial spending plans prepared as part of departmental strategic plans and submitted with the 2003 MTEF proposals by 30 June 2002

Table 22 Social Development – HIV/AIDS Allocation

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	1 500	4 697	6 488	6 887
Free State	1 500	6 510	8 993	9 546
Gauteng	1 000	6 836	9 443	10 023
KwaZulu-Natal	1 500	8 462	11 690	12 410
Mpumalanga	1 500	6 928	9 571	10 160
Northern Cape	1 500	2 604	3 597	3 818
Northern Province	1 500	3 069	4 240	4 500
North West	1 500	5 348	7 387	7 841
Western Cape	1 000	2 046	2 826	3 000
Total	**12 500**	**46 500**	**64 235**	**68 185**

Poverty Relief (Indirect transfer – Grant in Kind)	
Transferring department	Social Development (vote 17)
Purpose	To increase the self-reliance and improve social cohesion of specific demographic groups such as women, youth, children disabled and aged who are particularly vulnerable to the conditions associated with poverty.
Measurable outputs	• 100 HIV/AIDS structures will be established by the end of the 2003/04 financial year. • 144 Food production Clusters will be established by the end of the 2003/04 financial year. • 18 Urban Regeneration skills projects for youth and employment will be established by the end of the 2003/04 financial year. • 100 Income generation initiatives for rural women will be established and existing ones integrated over the next three years. • 100 dual-purpose projects encompassing children and the aged will be integrated into poverty programme over the next three years. • Integration of the disabled in all poverty relief progrmmes by the end of the 2003/04 financial year. • Micro save initiative rolled out to ensure a 60 percent saving of social finances.
Conditions	• Legal contracts signed between national programme officer of Department of Social Development and implementing agencies. • Before any disbursement of funding, programme/projects must submit to the national department of Social Development the Compliance Certificate in terms of section 38 (1) (j) of the PFMA (Act no. 1 of 1999) • Training funded by the allocation should be aimed at increasing the skills base in communities requiring accreditation • At least 2 percent of all project beneficiaries should be disabled. This condition is a shift from the original plan. • Programme in response to the requirements of disabled. This further enables a systematic integration of disabled into all poverty relief progrmmes.
Allocation criteria	• Focuses on specific target groups and spatial pockets of poverty. • Poverty levels per province (based on household expenditure). • The total population per province. • About 30 percent of the total budget was also allocated to the 13 poverty nodal points, identified by the Integrated Sustainable Rural Development Strategy (ISRDS).
Reason not incorporated in equitable share	• Special allocation to the department from the Poverty Relief fund.
Monitoring mechanisms	• Monthly /quarterly reporting to the provincial welfare departments by implementing agencies, and consolidated reports submitted to the National Department of Social Development. • Provincial visits to evaluate progress in the implementation of the projects. • Structured sited visits twice a year by a team consisting of both national and provincial officials.
Past performance	• All available funds for 2000/01 were transferred to the IDT – department implementation agency. Total transfers since the programme was initiated in 1998/99 amounts to R363 million.
Projected life	The project period covered by the grant is the current MTEF (2001/02-2003/04) period.
Payment schedule	Three installments – 15 June, 15 September 2001, and 15 January 2002 – Accounting responsibility lies with the accounting officer of the transferring national department.
Capacity and preparedness of the transferring department	A National Manager for Poverty Relief Programme at Deputy Director-General level has been appointed to head the newly established National Project Office.

Table 23 Social Development - Poverty Relief

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	7 617	16 179	10 449	
Free State	4 983	8 690	5 774	
Gauteng	2 478	4 386	3 190	
KwaZulu-Natal	8 117	17 429	11 274	
Mpumalanga	5 058	10 446	6 874	
Northern Cape	2 657	4 315	2 887	
Northern Province	7 241	15 633	10 229	
North West	4 483	8 646	5 827	
Western Cape	2 238	3 811	2 942	
Total	**44 872**	**89 535**	**59 446**	

Department of Agriculture Grants

Poverty Relief and Infrastructure Development	
Transferring Department	Agriculture (24)
Purpose	To address the degradation problems of natural resources and improve the socio-economic status of rural communities.
Measurable outputs	• Rehabilitation of irrigation schemes to benefit small scale farmers • Rehabilitation and improvement in veldt management • Reduction in depletion of soil fertility and soil acidity • Improvement in the production systems for small scale farmers
Conditions	Implementation of approved projects according to the project schedule
Allocation criteria	Based on submission of projects by provinces, with some bias towards the poorest provinces
Reason not incorporated in equitable share	The funding is from the special poverty allocation made by the national government
Monitoring mechanisms	• Provinces report monthly on implementation progress • Impact assessment to be undertaken in the current year
Past performance	**2000/01** • Allocation was under-spent by R6 million. • Evaluation of completed projects is underway, and the report to be submitted to National Treasury in June 2002.
	2001/02 projections • Expect all funds to be spent, although in some other provinces they have been waiting for the rains to start, so that they could proceed with their projects without causing any degradation to the land and environment.
Projected life	The grant is dependent on the projected life of the 'Poverty Relief and Infrastructure Development Fund' made by the national government.
Payment schedule	To be transferred in three instalments – 50 percent payment in 10 June, 25 percent in 10 October 2002, and 25 percent 10 January 2003.
Capacity and preparedness of the transferring department	All administrative, monitoring and reporting capacity is in place.
Further work by national department	**2002/03** • Provincial spending (business) plans completed by 31 January 2002. • The department to submit certification of completion of plans and any other requirements to the National Treasury by 19 March 2002. • Detailed payment schedule to be submitted to the National Treasury by 31 January 2002.
	2003/04 and 2004/05 • Grant framework submitted as part of the departmental strategic plans and budget proposals for 2003 MTEF by 30 June 2002. • Provincial spending plans prepared as part of departmental strategic plans and submitted with the 2003 MTEF proposals by 30 June 2002.

Table 24 Agriculture - Poverty Relief and Infrastructure Development

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	4 691	6 000		
Free State	500	1 400		
Gauteng	-	-		
KwaZulu-Natal	4 133	4 000		
Mpumalanga	742	2 000		
Northern Cape	500	1 300		
Northern Province	6 430	5 000		
North West	4 605	3 000		
Western Cape	800	1 300		
Total	**22 401**	**24 000**		

Department of Arts, Culture and Technology Grants

Poverty Alleviation (Indirect Transfer to Provinces – Grant In Kind)	
Transferring Department	Department of Arts, Culture and Technology (Vote 13)
Purpose	To fund Poverty Relief projects in the areas of Cultural Industries development, Cultural Tourism and Heritage Development.
Measurable outputs	• Number of jobs created. • Number of people trained. • Equipment provided. • Infrastructure for craft and heritage development.
Conditions	• Provinces must submit project proposals which must demonstrate that the goal of poverty relief through job creation and training are met. • Legal contracts signed between the DACST and provincial departments responsible for the arts and culture. • Legal contracts signed between DACST and implementing agencies.
Allocation criteria	The division of funds between provinces was made on the basis of the proposals submitted from the provinces The selection of projects was based on the following criteria: • Potential for job creation and/or training. • Location in terms of the poverty nodes.
Reason not incorporated in equitable share	• A special poverty alleviation allocation. • Some projects cut across provinces i.e CSIR and Khumbula-Zulu Craft projects.
Monitoring mechanisms	• Monthly meetings in each province. • Quarterly reports on progress and expenditure. • Project site visits.
Past performance	Ninety-seven percent of Poverty Alleviation allocation was spent in 2000/01.
Projected life	The duration of Poverty Relief allocation.
Payment schedule	Payments will be made in 1 to 3 installments based on actual expenditure – Accounting responsibility lies with the Accounting Officer of the transferring national department.
Capacity and preparedness of transferring department	A sub-directorate with dedicated staff is responsible for the programme and has the support of the line function directorate responsible for cultural development and heritage development.

Table 25 Department of Arts, Culture and Technology – Poverty Alleviation Allocations

R thousands	2001/02 Budget	2002/03	2003/04	2004/05
		Medium Term Estimates		
Eastern Cape	3 297	2 985	9 297	
Free State	1 941	1 971	4 803	
Gauteng	587	4 597	2 000	
KwaZulu-Natal	5 163	4 336	5 154	
Mpumalanga	3 270	2 370	2 320	
Northern Cape	3 156	2 307	2 548	
Northern Province	1 531	1 770	2 314	
North West	2 025	3 225	5 027	
Western Cape	1 775	1 641	2 780	
Unallocated	2 255	4 798	5 757	
Total	**25 000**	**30 000**	**42 000**	

Appendix E2

Conditional grants to local government

Introduction

Detailed information on each grant to local government is included in this Appendix. Government's intention to restructure and rationalize grants to local government is being actively pursued in the forthcoming financial year. In this light, the structure of the new, consolidated grants is provided with a description of each of the existing grant windows which will be phased into the new grant programmes, as well as details of these transitional arrangements.

The information provided here includes the:

- Purpose and measurable objectives of the grant
- Conditions of the grant (additional to what is required in the Bill)
- Criteria for allocation between provinces or municipalities
- Rationale for funding through a conditional grant
- Monitoring mechanisms
- Past performance
- The projected life of the grant
- The payment schedule
- Capacity and preparedness of the transferring department.

Ongoing efforts to address outstanding policy and programme management issues with respect to all grants are currently well underway and will be finalised by Budget Day 2002. Allocations to individual municipalities will also be published on Budget Day 2002.

Equitable share and related transfers

The equitable share to local government is the cornerstone of the system of intergovernmental transfers from the national sphere. This Constitutionally-protected share of nationally raised revenue emerged from the consolidation of a large number of conditional transfers from national and provincial governments. This transfer is not a conditional grant, as it provides general budgetary assistance to municipalities to exercise their powers and perform their functions, as allocated by the Constitution and subsidiary legislation.

Two smaller grant programmes exist within this category of transfers, and are scheduled for consolidation into the "core" local government equitable share in future years.

EQUITABLE SHARE - Local Government Transition Fund (LGTF)	
	Provincial and Local Government (Vote 5)
Purpose	To assist municipalities with significant once-off costs of amalgamating and establishing new structures following the municipal demarcation process
Measurable Outputs	Key Performance Indicators will be utilised to show progress. Although outputs will vary between municipalities, the following issues, inter alia, will be addressed: • Restructuring of Human Resources; • Standardisation of expenditure controls and financial reporting mechanisms; • Consolidation of financial data; • Standardisation of policies; • Co-ordination and, if necessary, standardisation of service delivery mechanisms; • Physical infrastructure needs for totally new municipalities. It is expected that over 75% of municipalities accessing the Transition Fund will have shown adequate progress against these and other KPI's and that any further assistance could be significantly more focused.
Conditions	In order to access the tranches of the Local Government Transitional Grant for the 2002/03 financial year, municipalities that complied with the conditions for the 2001/02 financial year must submit the following reports to the Department of Provincial and Local Government: • Monthly expenditure reports required in terms of the Division of Revenue Act; and • Quarterly proof of meeting pre-determined KPI's.
Allocation Criteria	Indicative allocations will be provided to all municipalities for the 2002/03 financial year. These allocations are based on the estimated costs of the perceived impact of demarcation. Funds will be transferred on submission of proof of approved progress with the establishment process.
Monitoring System	Progress will be monitored through the submission of regular progress reports in addition to the requirements stipulated in section 17(1) and (2) of the Division of Revenue Act, 2001
Budget on which Transfer is Shown	The LGTF will be shown as a conditional grant in the municipal budget
Past Performance	Municipalities have been able to compile Interim Integrated Development Plans (IIDPs) and over 50% have submitted formal Establishment Plans. Selected municipalities visited have shown good progress and understanding of what was required for the implementation of the developmental local government system.
Projected Life	Funds will be incorporated into the equitable share from the 2003/04 national financial year.
Reason not incorporated in Equitable Share	The grant provides specific and conditional funding to meet identified transition costs, and is distributed on the basis of the extent of the amalgamation challenges faced by a municipality.
Capacity and Preparedness of Transferring Department	Contractors have been appointed to assist the Department during the transition period.
2001/02 allocation	R250 million
2001/02 spending to September 2001	R12.7 million transferred to September 2001. 50% of all municipalities eligible for the grant had claimed their first tranche by the end of October 2001
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

EQUITABLE SHARE - Water Services Operating Subsidy (via augmentation to the Water Trading Account)	
Transferring Department	**Water Affairs and Forestry (Vote 33)**
Purpose	To augment the Water Trading Account (Sub-Programme 4) of the Department of Water Affairs and Forestry thus provide funding for the operation and maintenance of water schemes that are owned and/or operated by the department or by other agencies on behalf of the department. As water services provision is a functional competence of local government, the department will be transferring these schemes, with appropriate staff and budgets, to receiving municipalities. This grant will be converted into a conditional grant up to 2004/05 financial year to facilitate the transfer process, where after it will be incorporated into the local government equitable share from the 2005/06 financial year. In some cases transfers may be made to water service providers such as water boards.
Measurable outputs	Measurable outputs will be included in a comprehensive transfer plan to be developed and will include: • Ongoing operation of water services schemes owned and/or operated by the department • Improved revenue collection by 10% • Develop and implement an appropriate billing system to support municipalities with cost recovery systems, including credit control and indigent policies • Functional and financial assessment of all schemes – by June 2002. • Water Service Authority/Water Service Provider agreements in place by 30 September 2002 • Ongoing support to local government to complete their WSDP's as input to their operating plans, budgets and IDP's • *Successful transfer of 10% of the schemes to municipalities and or water boards in 2002/03* • Develop and implement, by 1 July 2002, an appropriate reward/incentive system for those municipalities who take early transfer of schemes, in co-operation with DPLG, SALGA and National Treasury.
Conditions	All receiving local governments will be required to enter formal service provision agreements (including provision for the payment of services rendered by the department) with the department by 30 September 2002. By 1 April 2003, no operating budgets will be provided unless there is a formal water service provision agreement between the department and the relevant municipality. Operating costs will be recovered from the municipalities and if necessary the interception of the equitable share where appropriate. CBO's, NGO's and Water Boards will also recover operating costs from municipalities with DWAF, DPLG and National Treasury providing them with appropriate support in this regard. The budget provided for the operation and maintenance of the schemes will initially be treated as a grant in kind until such time as transfer has been finalised. The grant will be used to facilitate the transfer of schemes and will be converted into a conditional grant in terms of the following programme: • 2002/03 – Where transfer agreements are in place by 30 June 2002, schemes transferred during the year will be transferred with the remaining 3 year operating budget. • 2003/04 – Where transfer agreements are in place by 30 June 2003, schemes transferred during the year will be transferred with the remaining 2 year operating budget. • 2004/05 – Where transfer agreements are in place by 30 June 2004, schemes transferred during the year will be transferred with the remaining operating budget. • 2005/06 - All DWAF operating conditional grants for water schemes transferred to municipalities will be included in the equitable share allocation administered by DPLG.
Allocation criteria	Targeted at all departmentally owned schemes. The initial emphasis will be to concentrate on those schemes where the local authority is both willing and able to take transfer. Where schemes are operated and/or owned by CBO's, NGO's and Water Boards, local government will be expected to enter into water service provision agreements.
Allocation by province and municipality	Allocations will be published in the gazette by 1 March 2002. Funds will be spent by the department until service provision agreement is in place. Allocations published in the gazette are only indicative figures.
Monitoring system	The Monitoring & Evaluation system for Transfers, which was developed as part of the National Information System for Water Service will be used.
Budget on which transfer is shown	The allocation is shown on the Water Affairs and Forestry vote. Once water services agreement are in place, the transfer will be shown as a conditional grant on municipal budgets, in recognition of the functional responsibility of local government with regard to the provision of water services. The allocation will be made to the authority taking transfer, which will mainly be to the WSA but could also be to a water service provider. From 2005/6 the operating conditional grant will be administered by DPLG as part of the local government equitable share.
Past Performance	Limited progress in terms of actual transfers completed to date.
Projected life	The basic programme is as follows: • 2002/03 to 2004/05 - Implement the transfer programme and actual budgetary transfers where all preconditions have been met. DWAF to support local government to undertake detailed planning for water services operations. DWAF to continue service provision and/or hand over to other service providers where local authorities are unwilling or unable to take over service responsibilities. • 2005/06 - DWAF role as service provider terminated. Schemes not accepted by local government to be handed over and managed by service providers contracted by DWAF but funded and supervised by other appropriate authorities.
Reason not incorporated in equitable share	The grant will facilitate the transfer of water services schemes to municipalities, following which they will be incorporated into the equitable share.
Capacity and preparedness of transferring department	Implement the agreed policy and process for transfer. The department has established a National Transfer Task Team, supported by regional task teams to drive the process
Capacity and preparedness of receiving department	Varies significantly. Assessments will be carried out to rank all recipients as to their preparedness to accept transfer. The transfer to those local governments ready, willing and able will be given priority. This will be done in co-operation with DPLG and SALGA
Payment schedule	The payments will be made on a quarterly basis, in April, June, October and January to the amounts as agreed in the transfer agreement for each specific scheme/local authority
2001/2002 allocation	R692 million
2001/02 spending to September 2001	R388.5 million
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Municipal Infrastructure Grant

The phased consolidation of municipal infrastructure transfers into the Municipal Infrastructure Grant (MIG) will commence in the 2002/03 financial year. This consolidation programme is anticipated to finish by 2004/05.

MUNICIPAL INFRASTRUCTURE GRANT	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To provide a framework for the consolidation of a number of infrastructure programmes into a single fund, through the establishment of existing grants programmes as windows within this grant. The grant will assist municipalities to provide basic municipal infrastructure and community services to low income households, and to support the national housing programme
Grants to be consolidated	Consolidated Municipal Infrastructure Programme (CMIP), Implementation of Water Service Projects (Capital), Community Based Public Works Programmes, Local Economic Development Fund and Social Plan Measures and Building for Sports and Recreation Programme Grant.
Measurable outputs	The key outputs of the programme are: • The quantity and quality of infrastructure developed • Categories of projects funded • Number of beneficiaries • Location of projects • Employment opportunities created and training provided • SMME involvement
Conditions	Conditions include: • Funds may only be used for municipal infrastructure investment • Funds to comply with municipal Integrated Development Plans of Category A and B municipalities • Funds to be directed towards water services projects (30%), housing programmes (15%), municipal roads (15%), unless otherwise approved. • Submission to the province and Department of a business plan and municipal council resolution approving each project • A maximum of 3,5 % or an agreed amount on each allocation may be utilised for programme management services. • Must be allocated in accordance with the Division of Revenue Act
Allocation criteria	Allocated on a poverty-weighted formula including the number of households in poverty and the number of households without access to basic water services.
Budget on which transfer is shown	The grant must be shown as a conditional grant on municipal budgets.
Past performance	New grant
Projected life	10 to 15 years
Reason not incorporated in equitable share	This is a specific capital transfer focussed on the national policy priority of ensuring all South Africans have access to at least a basic level of municipal services. This grant will directly support the Integrated and Sustainable Rural Development Programme (ISRDP) and the Urban Renewal Strategy (URS) as well as the Housing Programme.
Phasing arrangements	Grant will incorporate municipal infrastructure transfers for water services, public works, transport and sports and recreation over a period of three years. Uncommitted funds in each year will be transferred into the new grant programme.
Capacity and preparedness of transferring department	The Department will make allocations to municipalities in consultation with the Departments of Water Affairs and Forestry, Public Works, Transport, Sports and Recreation, Housing and Land Affairs, and with the consent of the National Treasury. These departments will be responsible for sectoral monitoring of municipal performance through the Municipal Infrastructure Task Team (MITT).
Further work by national department	National Treasury to produce framework to Cabinet for approval.

Four windows will continue to exist within the Municipal Infrastructure Grant, until such time as all funds are phased into the new grant mechanism. These windows are listed below.

MUNICIPAL INFRASTRUCTURE GRANT - LED and Social Plan Measures Grant (Poverty relief allocation)	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To support planning and implementation of job creation and poverty alleviation projects. The following conditions apply: • The projects/ business opportunity studies identified by municipalities must meet the criteria of the LED and Social Plan Measures Grant; • The project/study business plans will act as a contract between the Department of Provincial and Local Government (DPLG) and the municipality; • Municipalities must submit monthly reports in terms of the Division of Revenue Act 2001 and the Poverty Alleviation reporting requirements.
Measurable outputs	• Number of business opportunity studies completed 107 • Number of short term jobs created 30 000 • Number of long term jobs created 13 000 • Person days of accredited/ unaccredited training 10 000 • Business infrastructure developed e.g. business hives, arts and crafts centres, hydroponic tunnels, irrigation schemes etc • Financial and other support directed towards SMMEs
Conditions	Funds may only be committed to new projects once a formal agreement has been reached between the Department of Provincial and Local Government and the municipality regarding the ownership of the asset and ongoing financial responsibilities for operating and maintaining the project. Funds will be allocated in accordance with the Division of Revenue Act, with asset or funds transfer dependent on the capacity of the benefiting municipality.
Allocation criteria	The provincial allocation formula is based on provincial population (C) and three bias factors, namely: Poverty (E), Rural (G) and Women (I). The allocation percentage, J = (C+E+G+I)/4. The criteria for the division of municipal allocations is: • Alignment with Social Plan Fund studies and/or the Integrated Sustainable Rural Development Strategy and/or the Urban Renewal Strategy. • Whether the project business plan meets the criteria of the LED Fund.
Allocation by province and municipality	Projects are allocated annual budgets. The payment schedule is. • An up-front instalment of 33% of the project/study value; • A further 1-2 instalments depending on the individual cash flow projections of each project. The last instalment will be paid during the second half of the year. • Non-compliance with the conditions of the grant and reporting requirements will result in the withholding of instalments.
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Past Performance	• 200 projects have been funded to date • 52 Complete; 50 Advanced; 68 in progress; 30 planning and unblocking • 3125 permanent jobs; 8450 temporary jobs (based on reports)
Projected life	Grant will be consolidated into new Municipal Infrastructure Grant
Reason not incorporated in equitable share	The developmental mandate for municipalities to promote social and economic development is relatively new. The LED and Social Plan Measures Grant is, therefore, a policy instrument in re-directing local government towards developmental outcomes. The establishment of the grant is intended to address large-scale job losses within the country and the targeting of poverty through the Poverty Alleviation Fund.
Capacity and preparedness of transferring department	The department has an established grant and project management framework.
2001/02 allocation	R99,145m
2001/02 spending to September 2001	R53,347m
Uncommitted funds in terms of section 12 regulation of DoR Act, 2001	Uncommitted 2002/03 – R0 Uncommitted 2003/04 – R100m
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

MUNICIPAL INFRASTRUCTURE GRANT - Consolidated Municipal Infrastructure Programme	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To provide internal bulk, connector and internal infrastructure and community services and facilities for low income households.
Measurable outputs	Outputs are determined by the projects prioritised by Districts and category B's for which they want CMIP funding. The key outputs of the programme are: • The quantity and quality of infrastructure developed • Categories of projects funded 150 water , 60 sanitation, 50 roads projects per annum. • Number of beneficiaries – 450 000 households been serviced per annum • Location of projects- equal split between urban and rural projects • Employment opportunities created and training provided – no of woman and youth employed and trained through CMIP target 30% of each category. • SMME involvement –600 SMME's per annum
Conditions	Conditions include: • Funds may only be used for municipal infrastructure investment • Submission to the province and department of a business plan and municipal council resolution approving each project • A maximum of 3,5 % or an agreed amount on each allocation may be utilised for programme management services by provinces • Must be allocated in accordance with the Division of Revenue Act
Allocation criteria	Allocated on a poverty-weighted formula including the number of households in poverty and the number of households without access to basic water services.
Budget on which transfer is shown	The grant must be shown as a conditional grant on municipal budgets.
Past performance	Extensive expansion of municipal infrastructure to poor households. 1,8 million households since inception of programme have been serviced.
Projected life	Will be consolidated into co-ordinated municipal infrastructure grant framework on completion of the policy framework.
Reason not incorporated in equitable share	This is a specific capital transfer focussed on the national policy priority of ensuring all South Africans have access to at least a basic level of municipal services. Through CMIP Government directly supports the Integrated and Sustainable Rural Development Strategy (ISRDS) and the Urban Renewal Strategy (URS) as well as the Housing Programme. CMIP also demonstrates to municipalities how to redirect infrastructure investment to achieve developmental outcomes as well as new innovations that could be more cost effective and efficient to both municipality and community.
Capacity and preparedness of transferring department	The Department has finalised the grant framework and indicative three-year allocations. Further details are available on the Department's website (www.local.gov.za)
2001/02 allocation	R994 million
2001/02 spending to September 2001	R204 million
Uncommitted funds in terms of section 12 regulation of DoR Act, 2001	Uncommitted 2002/03 –25% Uncommitted 2003/04 –75%
Performance management	Upon provincial recommendation, the Department may submit to National Treasury an application for withdrawal and/or re-allocation of funds from one municipality to another, in the event of unsatisfactory performance, indecisiveness or inefficient utilisation of funds by the municipality
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

MUNICIPAL INFRASTRUCTURE GRANT - Community Based Public Works Programme	
Transferring department	Department of Public Works (Vote 30)
Purpose	Creation of community assets in rural disadvantaged communities and empowerment of the communities to manage the facilities in co-operation with the local municipality. Employment of community during construction and promotion of long term jobs associated with the facilities
Measurable outputs	• Amount spent on community labour - 30% of Construction Budget • No of Local Labourers employed - No Target given for the number as this differs from project type to project type and also on project size. • No of women employed - 50 % of the total number of temporary workers employed must be women. • No of youth employed - 15% of the total number of temporary workers employed must be youth • No of disabled people employed - 1.5% of the total number of temporary workers employed must have disabilities • No and type of assets created - No target as this depends on the budget for each project and the total allocation • Environmental target achieved - At least 5 indigenous trees must be planted at strategic or symbolic sites around the project.
Conditions	• Programme Management System/policy to be complied with; • Employment targets to be met; • Municipalities are required to place the CBPWP allocation on their budget; • Municipalities are required to operate and maintain the facilities; • Sustainability planning for all projects is required.
Allocation criteria	• The allocations are made within provinces in accordance with a Poverty Targeting Formula based upon the 1996 census and 1997 Household survey data. At least 30% of projects are to be situated within the government's Priority Areas. Municipalities identify their proposed projects in terms of their IDP's, which are then prioritised and submitted to the Provincial Coordination Committee for approval to enter the planning phase. • First payment made once implementing agent agreement signed between CBPWP and municipality. Thereafter, monthly on the basis of expenditure
Monitoring system	A Management Monitoring Information System has been introduced in terms of which monthly performance monitoring is carried out by the provinces, on the basis of monthly inspections and reporting provided by the municipalities.
Budget on which transfer is shown	The grant must be reflected on the receiving municipality's budget.
Past performance	• In 1998/99 No of projects = 338; Asset value = R267 million; People employed = 29 360. • In 1999/00 No of projects = 291; Asset value = R320 million; People employed = 18 027. • In 200/01 No of projects = 950; Asset value = R244 million; People employed = 31 472.
Projected life	Duration of poverty relief allocation
Reason not incorporated in equitable share	A conditional grant is necessary in order to ensure that appropriate facilities are created within target communities, that proper sustainability planning takes place and that employment targets are met
Capacity and preparedness of transferring department	A directorate has been dedicated to manage the programme with out-sourced programme management support and European Union technical management support
2001/02 allocation	R374 million
2001/02 spending to September 2001	R113.9 million
Uncommitted funds in terms of section 12 regulation of DoR Act, 2001	Uncommitted 2002/03 - Zero Uncommitted 2003/04 – Zero
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

MUNICIPAL INFRASTRUCTURE GRANT - Implementation of Water Service Projects (Capital)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To fund bulk, connector and internal infrastructure for water services at a basic level of service, and implement such projects where municipalities lack the required capacity to do so. As water services provision is a functional competence for local government, the department will be transferring completed RDP projects, with no staff or operating budgets, to receiving municipalities.
Measurable outputs	A comprehensive reporting system has been developed for the capital works programme and the measurable outputs include: • Number of people served – 693 000 targeted • Number of projects completed and transferred- programmed 27 • Number of jobs created : 62780 for all categories • Detailed monthly expenditure: R62 million/month on average • Number of business plans approved: 106 of all types • Number of people impacted through health and hygiene programme: 120 000 • Number of toilets constructed: 20600 • Number of completed RDP projects transferred – 10%
Conditions	Before any conditional grants are made, the local government arm concerned must: • Have undertaken the necessary service planning (e.g. WSDP) and provided budgets for the ongoing operation and maintenance • Be in a position to undertake the implementation, operation and maintenance of the relevant water services. • Have established the mechanisms and structures for reporting to DWAF as required • All receiving local governments will be required to enter formal service provision agreements (including provision for payment of services rendered by the department) with the department by 30 September 2002.
Allocation criteria	The contractual commitments for ongoing projects as well as operate, train and transfer of existing completed projects not yet transferred will receive preference in the project selection process. New projects are then selected via the relevant planning forums per region on the basis of the regional allocation which is based on a poverty-weighted formula with a strong rural focus. The Minister approves all projects earmarked for implementation, before the funding is formally delegated to the regions. All departmentally owed completed RDP projects will be subject to transfer
Allocation by province and municipality	Allocations will be gazetted by 1 March 2002. Funds will be spent by the department on committed and new projects until local government takes over the implementation of new projects.
Monitoring system	Projects are managed and monitored internally by DWAF, some through contract driven Build Operate, Train and Transfer arrangements, unless the municipality has a demonstrable capacity to do so itself. This will be done in accordance of the above conditions and to allow DWAF to fulfil its role as Regulator.
Budget on which transfer is shown	The allocation is shown on the Water Affairs and Forestry vote. Once a funds transfer agreement is in place, the financial transfer will be shown as a conditional grant on municipality budgets in recognition of the functional responsibility of Local Government with regard to the provision of Water Services. Asset transfer (grant –in –kind) should be recorded in the municipal asset register on transfer with a remark in the budget document that the infrastructure will be built on behalf on the municipality.
Past performance	Approximately 7,0 million people have been provided with access to basic water services to date, 353 projects completed and 59 transferred to municipalities. Due to lower allocations for sanitation projects, only 46 322 toilets have been constructed in the past five years
Projected life	On the basis of the above conditions, the department has proposed the following programme: 2002/03 • Continue implementation of contractually committed projects • Initiate detailed planning and design for projects prioritised through local government planning process and local government management arrangements • Continue to initiate and implement planned and designed projects through existing DWAF management arrangements where there is an explicit agreement with local government, including acceptance of operating responsibilities • Support local government to start the process of consolidating and completing water service development plans as an input to their Infrastructure Investment Programmes • Indicate reporting of allocation of funds to municipal area down to Category C level • Implement with DPLG the system to ensure that funds allocated are used for the purposes intended in the respective line function areas. • Where agreed, and subject to the approval of DWAF Director-General, make conditional grant to municipalities for implementation of projects • DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over services responsibilities of already completed projects yet not transferred 2003/4 • Finalise implementation of contractual committed projects • Continue to implement (but not to initiate and design) already planned projects through existing DWAF management arrangements where there is explicit agreement with local government, including acceptance of operation responsibilities • Support local government to undertake detailed planning and design for projects prioritised through local government planning process • Definitive allocation of funds to municipal area down to Category B level. • Implement and manage with DPLG systems to ensure that funds allocated are used for the purpose intended in the respective ministries. • DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over services responsibilities of already completed projects not yet transferred 2004/05 • DWAF role in project implementation terminated (ongoing projects handed over to local management)

	• *Ongoing* DWAF support to focus on planning and technical assistance • All funds allocated to local government level, except where retained by DWAF for indicated purpose • DWAF's ongoing role in oversight of capital spending programmes to be agreed by the respective ministries. • DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over *services responsibilities of already completed* projects not yet transferred 2005/06 • DWAF roles as service provider terminated. Projects not accepted by local government to be handed over and managed by services providers contracted by DWAF but funded and supervised by other appropriate authorities.
Reason not incorporated in equitable share	This is a specific capital transfer focused *on the national policy priority* of ensuring all South Africans have access to safe water sources and acceptable sanitation systems.
Capacity and preparedness of transferring department	For implementation of Water Services Projects the Department has established grant and project management frameworks. For the completed RDP projects the department has established a National Transfer Task Team, supported by regional task teams to drive the process..
Capacity and preparedness of receiving department	*Varies significantly.* Assessment will be carried out to rank all recipients as to their preparedness to accept transfer. The transfer to those local governments ready, willing and able will be given priority. This will be done in co-operation with DPLG and SALGA.
Payment schedule	The payment will be made on quartely basis, in April, June, October and January of the amounts as agreed in the funds transfer agreement for each *specific project/local authority.*
2001/02 allocation	R822 million
2001/02 spending to August 2001	*R74 million*
Uncommitted funds in terms of section 12 regulation of DoR Act, 2001	Uncommitted 2002/03 - Uncommitted 2003/04 -
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Building for Sport and Recreation Programme	
Transferring department	Sport & Recreation SA (Vote 18)
Purpose	Promotion of sport and recreation within disadvantaged communities by development of new and upgrading of existing sports facilities and empowerment of the communities to manage the facilities in co-operation with the local municipality. Employment of community during construction and promotion of long term jobs associated with the facilities
Measurable outputs	• Jobs created within the short and long term (maximum local community employment); • Number of existing facilities upgraded and new facilities constructed (50); • Value assessment of facilities constructed; • 50 communities empowered to promote sport and manage facilities; • 35 municipalities empowered to build appropriate sport facilities and promote sport within disadvantaged communities; • 30% of projects located within government's Priority Areas (in terms of Integrated Sustainable Rural Development Strategy)
Conditions	• Programme Management System/policy to be complied with. • Employment targets to be met. • Municipalities are required to place the BSRP allocation on their budget. • Municipalities are required to operate and maintain the facilities. • Sustainability planning for all projects is required.
Allocation criteria	The allocations are made within provinces in accordance with a Poverty Targeting Formula based upon the 1996 census and 1997 Household survey data. Allocations between District and Local municipalities are made on the basis of the intended regional scope of the facility and thus which authority is more appropriate to develop and maintain the facilities. At least 30% of projects are to be situated within the government's Priority Areas. The allocations are to provide a balance between rural and urban/peri urban disadvantaged communities. Municipalities identify their proposed projects in terms of their IDP's, which are then prioritised by the provincial departments of sport and recreation in line with provincial development priorities.
Allocation by province and municipality	As gazetted.
Monitoring system	A Management Monitoring Information System has been introduced in terms of which monthly performance monitoring is carried out by the provinces, on the basis of monthly inspections and reporting provided by the municipalities.
Budget on which transfer is shown	The grant must be reflected on the receiving municipality's budget. The first payment will be made once the implementing agent agreement has been signed between SRSA and the municipality. Thereafter, payments will occur monthly on the basis of actual expenditure.
Past performance	First year of the programme - majority of projects already identified. More detail here
Projected life	Duration of poverty relief allocation
Reason not incorporated in equitable share	A conditional grant is necessary in order to ensure: • that appropriate facilities are created within target communities; • that proper sustainability planning takes place; • that municipalities and communities are empowered to promote sport; and • that employment targets are met.
Capacity and preparedness of transferring department	A directorate has been dedicated to manage the programme with out-sourced programme management support
2001/02 allocation	R40 million
2001/02 spending to September 2001	R6 million
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Urban Transport Fund	
Transferring department	Transport (Vote 32)
Purpose	To promote the planning of intermodal land transport infrastructure and operations, the facilitation of integrated land use and land transport planning, the development of guidelines in this regard and to initiate demonstration projects in line with the Urban Transport Act, 1977.
Measurable outputs	• The integrated land use, land transport plans and planning section of the National Land Transport Transition Act (NLTTA) to be brought into effect on 1 April 2002. The 2002/03 financial year of the grant will be used to compile all National Land Transport Strategic Framework (NLTSF), all provincial NLTSF and integrated transport plans in Unicities. • Transport planning guidelines to be published by March 2002 by the Department of Transport • Demonstration projects - Transport Authorities in Durban by June 2002 and Bloemfontein by November 2002 • Infrastructure Improvement - Investment in Khayelitsha Rail Extension - Investment in Alexandra Urban Renewal - Baralink to be funded until March 2003 - Newtown (Mandela Bridge) - Wetton Lansdowne Corridor - Mabopane Station the creation of an intermodal facility
Conditions	• Submission of a business plan in line with the Urban Transport Act, 1977 and national priorities; The priorities are planning, research, demonstration projects on issues like transport authorities and infrastructure • Successful implementation of previously funded projects; • Preferably partly funded by provincial and local governments.
Allocation criteria	The grant is allocated to metropolitan and larger Category B municipalities, on the basis of priorities determined in terms of the National Land Transport Transition Act, 2000 and the Urban Transport Act, 1977.
Budget on which transfer is shown	The transfer must be shown as a conditional grant on municipal budgets.
Past performance	**Integrated Land Use And Land Transport Plans** Planning regulations and requirements are currently being prepared and the process being followed includes DPLG and Department of Land Affairs to ensure that the issues of the integrated land use is addressed in a holistic manner. **Transport Planning Guidelines** The preparation of guidelines and requirements for Integrated Transport Plans (ITP) is being addressed and it is envisaged that the requirements will be completed by 31 March 2002. The ITP guidelines will be finalised by June 2002. The guidelines and requirements for Metropolitan Current Public Transport Records (CPTRs) will have to be revised and finalised by June 2002. Thus the planning requirements and the regulations will be finalised by 31 March 2002. **Demonstration Projects** **1. TRANSPORT AUTHORITIES** • Durban: Funds have been committed and it is envisaged that the project will be finalised by June 2002. • Bloemfontein: This project will be finalised by November 2002. The business plans are being prepared and the commitment of the Council and the Province has been obtained. 2. DIAL-A-RIDE (Cape Town) • This project is ongoing, however the commitment is only for the current financial year. **3. MODALINK** • The funding is on for the current financial year. **4. INFRASTRUCTURE IMPROVEMENT** • New projects were initiated lie the Khayelitsha Rail Extension, Alexandra Urban Renewal, Baralink, Newtown (Mandela Bridge, and the Mabopane Station – Intermodal Facility.
Projected life	See measurable inputs for timeframes
Reason not incorporated in equitable share	National priorities are determined annually based on the National Department Business Plan.
Capacity and Preparedness of Transferring Department	The NDOT has the capacity to manage and monitor the business plans and contracts for the identified projects. However the successful implementation of these projects depends and is influenced by the capacity of the receiving authority.
2001/02 allocation	R81 million
2001/02 Spending to September 2001	R11 million
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

National Electrification Programme	
Transferring department	Minerals and Energy (Vote 29).
Purpose	To implement the National Electrification Programme through providing capital subsidies to Eskom and municipalities licensed as electricity distributors by the National Electricity Regulator to: • Address the electrification backlog of permanently occupied residential dwellings that are situated in rural and urban areas in the furtherance of electrification in historically under-supplied areas
Measurable outputs	The number of connections made in relation to the capital invested. 70 000 household connections based on proposed budget allocation to licensed municipalities of R210 million
Conditions	Distributors who receive funding must contractually undertake to: • Account for the allocated funds separately from their normal business • Pass all benefits derived from the scheme on to end-customers • Not utilise the fund for any purpose other than electrification • Adhere to the approved electrification programme and agreed cashflow budgets • Ring-fence their electricity accounts (initially supply accounts) • Adhere to reporting requirements in terms of the PFMA and DoRA
Allocation criteria	Allocations are made on the basis of project applications from licensed distributors who: • Meet the requirements, e.g. in terms of documentation, approved tariffs, ring-fenced accounts • Have the financial, technical and staff capabilities to distribute electricity and to expand the network • Regularly pay their bulk supply account and are up-to-date with payments agreed to with the bulk supplier • Apply credit control effectively • Have consulted their communities in terms of the prescribed Integrated Development Planning (IDP) process
Allocation by province and municipality	The application timeframe will be communicated to all licensed distributors. The date for final compilation of the 2002/3 National Electrification Programme is 15 January 2002 for formal approval by 31 January 2002. No late applications will be considered. The project cycle will be 1 April 2002 to 31 March 2003 and this will be managed strictly. Only projects with existing houses (or where house connections can be guaranteed before 31 March 2003) will qualify.
Budget on which transfer is shown	The grant will be shown as a conditional grant on budgets of licensed municipalities.
Past performance	(Statistics given are per calendar year. Programme managed by NER) Year — No. of Connections — Capex 1994 — 164 535 — R 559 million 1995 — 150 454 — R 444 million 1996 — 137 534 — R 446 million 1997 — 213 768 — R 504 million 1998 — 136 074 — R 393 million 1999 — 144 043 — R 385 million 2000 — 133 780 — R 345 million
Projected life	The National Electrification Programme is ongoing and planned on a 3-year rolling basis in line with the MTEF. It aims at providing universal access to basic electricity services. Its projected life is 10 years subject to current backlog and historic funding levels.
Reason not incorporated in equitable share	This is a specific capital transfer in support of the National Electrification Programme.
Capacity and preparedness of transferring department	The DME will take full responsibility for the administration and control of the NEP.
2001/02 allocation	Period 1 April 2001 to 31 March 2002: R289 million for a target of 131 000 connections Revised allocation (October 2001, to account for overflows from previous programme): R362 million for a target of 161 800 connections
2001/02 spending to August 2001	(On revised gazetted allocation) April — R 0 May — R 0 June — R 3.734 million July — R 3.682 million August — R 12.002 million September — R 12.958 million **Total — R 32.376 million**
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Water supply and water-borne sewerage disposal schemes (historical capital subsidy)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To honour existing subsidy commitments in terms of Government Notice (GN) No.1341 of 30 June 1989 (as amended) and GN No. 247 of 6 February 1987 (as amended) to municipalities who have installed water services works and obtained approval for subsidies in terms of section 162 of the Water Act (Act No 54 of 1956).
Measurable outputs	Payment of obligations in terms of grant purpose
Conditions	Conditions include: • Subsidy limited to a maximum of one-third of construction costs • No further subsidies may be granted.
Allocation criteria	Allocated historically in accordance with prevailing legislation.
Allocation by province and municipality	Three-year indicative allocations by municipality will be gazetted by 5 May 2001.
Monitoring system	None
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Past performance	Construction of water services assets subsidised in 9 municipalities
Projected life	Programme will terminate following elimination of existing obligations. At current payment levels this is projected to take up to 13 years
Reason not incorporated in equitable share	This is a specific capital transfer to meet historical obligations incurred under the Water Act, 1956
Capacity and Preparedness of Transferring Department	The department has an established grant framework, which will be submitted by 30 April 2001.
2001/02Allocation	R1.153 million
2001/02 Spending to September	
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Municipal Capacity-building and Restructuring Grants

Government provides a number of fiscal support measures for to enhance municipal management and service delivery capacity. The thrust of these transfers is to implement reforms in municipal development planning, budgeting and performance monitoring systems. An additional set of transfers assists municipalities to implement medium-term institutional and financial restructuring programmes that reduce fiscal stress, expand service delivery and improve the quality of services provided.

A framework to prepare for the consolidation of these grants was gazetted on 31 May 2001. In the course of the financial year, a number of additional funding channels have been identified, and these funds have been incorporated into the Municipal Systems Improvement Programme. Further steps in this process of consolidation are currently under development and will be published shortly.

MUNICIPAL CAPACITY-BUILDING GRANT - Municipal Systems Improvement Programme	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	The purpose of the grant is to support municipalities in implementing new systems as provided for in the Municipal Systems Act, 2000. These new systems include integrated development planning, performance management, and related local public sector management reforms, which must be within that municipality's budgetary framework. In addition, the grant will also cover Land Affairs commitments for LDO/Spatial planning activities.
Measurable outputs	• 30 PIMS-Centres established and fully operational by the end of October 2001. • A further 3 PIMS-Centres established and fully operational by the end of February 2002. • The grant will also cover operational costs of the 33 PIMS-Centres for the next two financial years until March 2004. • Completed IDPs for these District Municipalities and the Local Municipalities falling within them by the end of March 2002. • Number of municipalities linking strategic planning to the budgetary process. Comprehensive annual performance reports by *all* the pilot municipalities by end of March 2002. • Bi-annual review reports on the implementation of PMS pilot programme by end of January and July 2002.
Conditions	Conditions include: • Contracts on the establishment of the PIMS-Centres must be signed between the Department of Provincial and Local Government, District Municipality and Donors. • PIMS-Centres must provide support to District and local municipalities within the area of jurisdiction of that District Council. • The portion of the grant must be utilised for spatial planning and IDP related activities. • Municipalities must also utilise the funds to address land reform issues in the IDP. • Municipal must set key performance indicators and measurable targets as part of their IDP process.
Allocation Criteria	• PIMS-Centres are established and offered on a demand basis to every newly established District Municipality . • The three poorest provinces and weak municipalities are targeted for the initial rollout. The initial roll out includes 30 District Municipalities (or 30 PIMS-Centres). Some of these Centres have been operational from the beginning of April 2001 and the rest will be operational from the beginning of October 2001. It is envisaged that a further 3 Centres will be rolled out by February 2002. • The Department will be implementing a PMS pilot programme with 27 municipalities that are strong, have capacity and are of economic importance to test the implementation of PMS through the implementation of Interim IDPs. Only 25 municipalities will be assisted financially. • For the next two financial years 40 selected municipalities will be assisted financially to set up their Performance Management Systems.
Allocation by province and municipality	The grant will be reflected in provinces, district and local municipalities' budgets. The first transfer will be made up-front and subsequent ones in two instalments. For PMS and LDO grant commitments, the portion of the grant will be transferred to selected municipalities and provinces in two instalments
Monitoring system	• Quarterly progress reports on PIMS-Centres will be received from the Provincial PIMSS forums. (The PIMSS forum is made of representatives from District and Local municipalities, members of the National PIMSS Task Team and PIMS-Centre professionals). • The national IDP monitoring system will include assessment of the impact of PIMS-Centres on the quality of support provided. (The monitoring system has been approved for donor funding and will be operational from December 2001). • All the pilot municipalities will be expected to submit quarterly progress report. • DPLG staff members will conduct quarterly visits to pilot and selected municipalities to provide technical advise and most importantly, to monitor progress attained and difficulties encountered that need immediate resolution; • Furthermore, the Office of the Auditor General that is partnering with DPLG will be participating in the PMS pilot programme thorough performing performance audits and thereby testing their readiness and capacity to conduct comprehensive performance audits; and • Provinces and municipalities must submit progress certificates to the Department of

	Land Affairs as per LDO/spatial planning grant commitments.
Budget on which transfer is shown	The budget will be transferred directly to, district and local municipalities.
Past performance	
Projected life	3 years.
Reason not incorporated in equitable share	New grant to assist with the implementation of the Municipal Systems Act, 2000 and develop municipal capacity.
Capacity and preparedness of transferring department	The department has appointed a team to assist with the establishment and management of the PIMS-Centres. Roadshows were conducted to market and solicit support for the PIMSS concept to all municipalities and provinces. The Department has prepared contracts, secured donor funding for setting up costs and District Councils contribute operational costs. The department's capacity to manage the PMS Pilot Programme has been beefed up.
2001/02 allocation	R42 million
2001/02 spending to August 2001	R7 million
Further work by national department	Department to produce framework for capacity building by 31st January 2002. Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Integrated Rural Development Programme (IRDP) Management and Implementation Grant	
Transferring Department	Provincial and Local Government (Vote 5)
Purpose	To support Integrated Sustainable Rural Development Strategy (ISRDS) nodal municipalities to establish institutional systems and nodal delivery teams for planning, project initiation and implementation of the IRDP.
Measurable Outputs	Measurable outputs include: • Institutional capacity to plan, manage and implement the ISRD programme exist in the nodal municipalities, • Completed IDPs for the nodes, and • Projects initiated for implementation in the nodes in line with IIDPs.
Conditions	The conditions of the grant are as follows • The grant must be used to create and sustain institutional capacity for rural development in the form of PIMS-Centres, inclusive of nodal delivery teams. The nodal delivery team should be absorbed into the municipal structure beyond the two year funding period, • The grant must be used for project initiation to promote integrated rural development as part of the integrated development planning (IDP) and delivery process, • The grant must be utilised for once-off capital costs up to a maximum of R500 000, • in the (2002/2003) financial year a maximum of 40% of the amount allocated must be used for operating expenses and 60% for project initiation.
Allocation Criteria	• The grant will be allocated equally to all the 13 rural nodes, • The grant will be allocated over the two-year period (2001/02 and 2002/03), • The first year allocation will be mostly used for institutional costs including appointment of delivery teams in order to stabilize the municipalities in the nodes, and • The second year allocation will be mostly used for project initiation costs.
Budget on which transfer is shown	The budget will be transferred directly to District municipalities. In cases where the node is located at the local municipality level (Central Karoo and Thabo Mofutsanyana), the district and local municipal leaders will decide or agree on the percentage to be allocated to the nodal local municipality.
Past Performance	Not applicable since this is a new grant
Projected Life	2 years
Reason not incorporated in equitable share	New grant to assist nodal municipalities in order to establish institutional capacity in the nodal municipalities for them to deliver on the ISRDP.
Capacity and preparedness of transferring department	The Department has appointed Independent Development Trust (IDT) as an agency to assist with the management and implementation of the ISRDP. A dedicated Departmental team responsible for the nodes has been approved by DPSA and the appointment is underway.
2001/02 allocation	R32.959 million
2001/02 spending to August 2001	Not applicable
Further work by national department	Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Local Government Restructuring Grant	
Transferring department	National Treasury (Vote 7)
Purpose	To modernise large municipalities and to make them more effective and efficient service delivery authorities through assisting them to restructure their organisations, functions and fiscal positions. National government will support municipal plans to the extent that they offer significant benefits to national economic stability and development.
Measurable outputs	Outputs of individual grants are specified by municipalities in their restructuring plans, and subject to negotiation with the National Treasury through the preparation of a grant agreement.
Conditions	Funds will be made available on the basis of a municipality's commitment to a locally owned, pre-existing normalization (budgetary restructuring) plan. Conditions will thus be associated with the intended outputs of the municipality's own restructuring plan, rather than funding specific projects. However, municipalities will be required to offer a credible analysis of the reasons behind their decision to restructure and evidence that their plan confronts these challenges. The municipal Council will need to agree to this plan in the form of a Resolution. The primary condition is that the continuing flow of grant funds will depend upon the progressive implementation of the agreed Restructuring Plan, measured through an agreed set of locally appropriate financial indicators and institutional milestones. In this regard, municipalities will be required to take credible steps to collect all revenues due to them.
Allocation criteria	Only municipalities with total annual budgets of R300 million or more are eligible to apply for this grant, as the Local Government Support grant will assist smaller municipalities. The allocation of funding is demand-driven, with applications being subject to intensive assessments of their credibility, as outlined in the existing grant disbursement framework. Applications must be submitted by 1 June 2002 and 1 November 2002.
Allocation by province and municipality	New allocations will be published on the National Treasury website following the signing of grant agreements.
Monitoring system	A management team will be appointed by the Treasury to assist with the technical evaluation of applications and regular reports required in terms of the grant agreements.
Budget on which transfer is shown	The grant will be shown as a conditional grant on the National Treasury vote, and must be reflected on the receiving municipality's budget.
Past performance	Satisfactory performance to date in pilot grant to the City of Johannesburg Metropolitan Council for the implementation of iGoli 2002.
Projected life	Five years, depending on the outcome of a scheduled review of the grant programme in 2003/04.
Reason not incorporated in equitable share	The grant supports implementation of municipal restructuring exercises necessary to avoid financial distress and any risks to the national fiscus. It will be incorporated into the equitable share following an assessment that large municipalities are on a sustainable growth trajectory.
Capacity and preparedness of transferring department	Chief Directors appointed to deal with capacity
2001/02 allocation	R350m
2001/02 spending to August 2001	R50m
Further work by national department	None. The grant framework is available on the Treasury website (www.treasury.gov.za/documents/other/rgg.pdf). The National Treasury is fully prepared for any applications, and a directorate is dedicated for this purpose.

MUNICIPAL CAPACITY-BUILDING GRANT - Local Government Financial Management Grant (FMG)	
Transferring department	National Treasury (Vote 7)
Purpose	To promote and support reforms to municipal financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems in municipalities and implementation of the Municipal Finance Management Act.
Measurable outputs	Outputs include: • The preparation and implementation of multi-year budgets meeting national norms and standards. • The adoption of Generally Accepted Municipal Accounting Practices. • Improvements in internal and external reporting on budgets and financial information.
Conditions	Conditions include: • The submission of a Council resolution committing to budget reforms, to achieve multi-year budgeting, implementation of GAMAP, and improvement to reporting requirements. • A Council commitment to employ an appropriately skilled chief financial officer. • Submission of a checklist identifying critical financial management areas to be addressed. • Submission of a plan to address shortcomings and to implement reforms.
Allocation criteria	The allocation of funds will be targeted at pilot project municipalities in all categories comprising A, B, and C municipalities able to commit to implementing the financial reforms.
Allocation by province and municipality	Allocation of the grant for 2002/03 between the various recipient municipalities will be published by 31 May 2002 and will be based upon the receipt of progress reports.
Budget on which transfer is shown	The FMG will be shown as a conditional grant on the National Treasury vote and indicative allocations must be reflected in municipal budgets.
Past performance	Significant progress in 8 pilot municipalities in the last financial year towards implementing three-year budgets and reforming financial management practices.
Projected life	Programme to continue for between five to seven years, with a performance review to be conducted by the third year.
Reason not incorporated in equitable share	Due to the critical need to develop municipal financial capacity as the foundation upon which other reforms can be built.
Capacity and preparedness of transferring department	Chief Directors appointed to deal with capacity
2001/02 allocation	R60m
2001/02 spending to August 2001	R39,7m
Further work by national department	Department to produce framework for capacity building by 31st January 2002. Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

Local Government Support Grant (LGSG)	
Transferring Department	Provincial and Local Government (Vote 5)
Purpose	To assist medium and small municipalities experiencing severe financial problems to restructure their financial positions and organisations over the medium term.
Measurable Outputs	Although outputs will vary between municipalities, the following issues, inter alia, should be addressed: • Development and approval of a cash funded Operating Budget and the alignment of Capital Budget to IDP; • Ensuring financial reporting processes take place accurately and timeously; • Council approval and implementation of consolidated credit control, indigence and tariff policies; • Approval of debt restructuring plans by creditors and implementation thereof by Council; • Development of a stable financial base. • Substantively unqualified and timeous audit reports The newly established municipalities receiving Management Support should be showing significant progress in the abovementioned areas - this progress will be monitored through quarterly progress reports and monthly heat maps. It is expected that towards the end of the 2003/04 financial year the Department should be able to identify those municipalities that probably will never have a tax base that meets the barest expenditure needs. Decisions regarding the future support to those areas can then be made.
Conditions	• Submission of business plans, by provinces to the national transferring officer, stipulating the processes to be undertaken by the province in order to address the financial restructuring needs of municipalities. • Any amendments to the provincial business plans can only be effected after the prior approval of the national transferring officer has been obtained. • Provinces must gazette allocations before transferring funds to municipalities. • Reporting as required by applicable legislation as well as DPLG is adhered to. • Adequate measures are put in place to ensure compliance with the conditions of the funds at municipal level.
Allocation Criteria	Allocations are made to Provinces according to assessed need in order to assist them in meeting their Constitutional obligation to support the local government sphere.
Monitoring system	The Department will expect quarterly reports on the progress made with the restructuring of municipalities, and monthly expenditure reports as required by the Division of Revenue Act.
Budget on which Transfer is Shown	Any funds spent by provinces for the benefit of local government will be reflected as resource transfers in the books of the municipality. Financial assistance, being a direct income source for a municipality, will be reflected in the budget of the municipality concerned.
Past Performance	Over 170 municipalities have benefited from support in the form of financial expertise. Over 120 municipalities have received funding to implement structural adjustment programmes that will positively affect their cash flow. This has effectively reduced administrative backlogs at municipalities, reduced the number of financial statements outstanding to the Auditor-General and reduced the amounts outstanding to bulk creditors.
Projected Life	While support is required by the Local Government Sphere
Reason not incorporated in Equitable Share	According to section 154 (1) of the Constitution, the national government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions.
Capacity and Preparedness of Transferring Department	Contractors have been appointed to assist the Department and provinces during the 2001/02 and 2002/03 municipal financial years, with an option to extend their assistance by a further 12 months thereafter.
2001/02 allocation	R160m
2001/02 spending to September2001	R80m transferred during September 2001
Further work by national department	Department to produce framework for capacity building by 31st January 2002. Allocations by municipalities still to be finalised and submitted to National Treasury by 31st January 2002.

REPUBLIC OF SOUTH AFRICA

DIVISION OF REVENUE BILL

(MINISTER OF FINANCE)

[B - 2002]

BILL

To provide for—

the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2002/2003 financial year; reporting requirements for such allocations; to provide for the withholding and the delaying of payments; liability for costs incurred in litigation in violation of the principles of co-operative governance and intergovernmental relations; and

to provide for matters connected therewith.

PREAMBLE

WHEREAS section 214(1) of the Constitution requires Act of Parliament to provide for—

(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;

(b) the determination of each province's equitable share of the provincial share of that revenue; and

(c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made;

BE IT THEREFORE ENACTED by the Parliament of the Republic of South Africa, as follows:—

Definitions

1. In this Act, unless the context indicates otherwise, a word to which a meaning has been assigned in the Public Finance Management Act bears the same meaning, and—

(i) **"accredited bank account"** means—

(a) in respect of a province, a bank account of the provincial Revenue Fund which the head official of the provincial treasury has certified to the National Treasury as the bank account into which allocations in terms of this Act must be deposited; and

(b) in respect of a municipality, a bank account of a municipality which the Municipal Manager has certified to the national accounting officer responsible for local government as the bank account into which allocations in terms of this Act must be deposited;

(ii) "**Constitution**" means the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996);

(iii) "**Director-General**" means the Director-General of the National Treasury;

(iv) "**financial year**" means, in respect of the national and provincial spheres of government, the financial year commencing on 1 April 2002 and ending on 31 March 2003 and, in respect of the local sphere of government, the financial year commencing on 1 July 2002 and ending 30 June 2003;

(v) "**head official of the provincial treasury**" means the head of the provincial department responsible for financial matters in the province;

(vi) "**Intergovernmental Fiscal Relations Act**" means the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997).

(vii) "**municipality**" means a municipality established in terms of the Municipal Structures Act;

(viii) "**municipal accounting officer**" means the municipal manager of a municipality;

(ix) "**Municipal Structures Act**" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

(x) "**next financial year**" means, in respect of the national and provincial spheres of government, the financial year commencing on 1 April 2003 and ending on 31 March 2004 and, in respect of the local sphere of government, the financial year commencing on 1 July 2003 and ending on 30 June 2004;

(xi) "**past financial year**" means, in respect of the national and provincial spheres of government, the financial year which commenced on 1 April 2001 and ends on 31 March 2002 and, in respect of the local sphere of government, the financial year which commenced on 1 July 2001 and ends on 30 June 2002;

(xii) "**payment schedule**" means an instalment schedule which sets out—

(a) the amount of each instalment of an equitable share or an allocation to be transferred to a province or municipality for the financial year;

(b) the date on which each such instalment must be paid; and

(c) to whom, and to which accredited bank account, each such installment must be paid;

(xiii) "**prescribe**" means prescribe by regulation in terms of section 34 of this Act or the Division of Revenue of Act, 2001 (Act No. 1 of 2001);

(xiv) "**Public Finance Management Act**" means the Public Finance Management Act, 1999 (Act No. 1 of 1999);

(xv) "**receiving officer**" means—

(a) in respect of a Schedule 3 allocation transferred to a province, the head official of a provincial treasury;

(b) in respect of a Schedule 4 allocation transferred to a province, the accounting officer of a provincial department which receives such allocation; or

(c) in respect of a Schedule 5 allocation transferred to a municipality the municipal accounting officer of that municipality;

(xvi) **"SALGA"** means the national organisation recognised in terms of section 2(1)*(a)* of the Organised Local Government Act, 1997 (Act No. 52 of 1997);

(xvii) **"transferring national officer"** means the accounting officer responsible for a national department which transfers to a province or municipality a Schedule 3, 4 or 5 allocation, but excludes the accounting officer of the National Treasury in respect of an allocation listed in those Schedules and which is on the vote of the National Treasury; and

(xviii) **"transferring provincial officer"** means the accounting officer responsible for a provincial department which receives a Schedule 3 or 5 allocation for the purpose of transferring it to a municipality in the relevant province.

PART I

Promoting co-operative governance in intergovernmental budgeting

2. The object of this Act is to—

(a) provide for the equitable division of revenue raised nationally among the three spheres of government;

(b) promote co-operative governance in the budget allocation and transfer process;

(c) promote better co-ordination between policy, planning, budget preparation and execution processes;

(d) promote predictability and certainty in respect of all allocations to provincial and local governments in order that they may plan their budgets over a multi-year period;

(e) promote transparency and equity in all allocations, including in respect of the criteria for their division;

(f) promote accountability for the use of public resources by ensuring that all transfers are reflected on the budget of benefiting provincial and local governments, and are subjected to an audit ;

(g) ensure that proper financial management is applied; and

(h) ensure that legal proceedings between organs of state of the three spheres of government are avoided.

PART II

EQUITABLE SHARE ALLOCATIONS

Equitable division of revenue raised nationally among spheres of government

3. (1) Anticipated revenue raised nationally in respect of the financial year is divided among the national, provincial and local spheres of government for their equitable share as set out in Column A of Schedule 1 and such share may be adjusted through the provision of further allocations in the Adjustments Budget.

(2) A recommended division of anticipated revenue for the next financial year and the 2004/2005 financial year, and which is subject to the provisions of the annual Division of Revenue Act in respect of those financial years, is set out in Column B of Schedule 1.

(3) Despite subsection (2), the Minister may, in respect of the next financial year and until the commencement of the annual Division of Revenue Act, determine that an amount not exceeding 45 per cent of the recommended division for the next financial year, be transferred as a direct charge against the National Revenue Fund to each province and to a municipality contemplated in section 5(1).

Equitable division of provincial share among provinces

4. (1) Each province's equitable share of the provincial share of anticipated revenue raised nationally in respect of the financial year is set out in Column A of Schedule 2 and such share may be adjusted through the provision of further allocations in the Adjustments Budget.

(2) Each province's equitable share contemplated in subsection (1) must be transferred to the province in weekly installments in accordance with a payment schedule determined by the National Treasury after consultation with the head officials of the provincial treasuries.

(3) Despite subsection (2), the National Treasury may, on such conditions as it may determine, advance funds to a province in respect of its equitable share

contemplated in subsection (1), which have not yet fallen due for transfer in accordance with a payment schedule referred to in subsection (2) in respect of that province.

(4) The advances contemplated in subsection (3) must be set-off against transfers to the province which would otherwise become due in terms of that payment schedule.

Equitable share for local government

5. (1) The national accounting officer responsible for local government must determine the allocation for a municipality in respect of the equitable share for the local sphere of government set out in Schedule 1 and such determination must be published by the Minister in the *Gazette*.

(2) The national accounting officer responsible for local government must, in the determination contemplated in subsection (1), also indicate the recommended division of anticipated revenue for the next financial year and the 2004/2005 financial year.

(3) The criteria for determining the division contemplated in subsection (1) must be in accordance with a framework approved by the National Treasury after consultation with SALGA and must prioritise the funding of municipalities which bear primary responsibility for basic service delivery.

(4) The allocation to each municipality contemplated in subsection (1) must be transferred to that municipality in quarterly installments: Provided that such

installments are transferred within the first three weeks of May, August, November and February.

Shortfalls and excess revenue

6. (1) If actual revenue raised nationally in respect of the financial year falls short of the anticipated revenue set out in Schedule 1, the national government bears the shortfall.

(2) If actual revenue raised nationally in respect of the financial year is in excess of the anticipated revenue set out in Schedule 1, the excess accrues to the national government and forms part of its equitable share.

(3) Despite subsection (2), the national government may, by means of an Adjustments Budget, and additional to the equitable share allocation and the allocations contemplated in Part III, make additional allocations to provinces and local government from its equitable share of the nationally divided revenue.

(4) The additional allocations to provinces and local government contemplated in subsection (3) may be a direct charge against the National Revenue Fund.

PART III

OTHER ALLOCATIONS TO PROVINCES AND MUNICIPALITIES

General norms and standards for all allocations

7. (1) Other allocations to provinces and municipalities from the national government's share of anticipated revenue raised nationally are set out in Column A of Schedules 3, 4, 5 and 6 as follows:

(a) Schedule 3 contains allocations to provinces for general and nationally assigned functions;

(b) Schedule 4 contains allocations to provinces;

(c) Schedule 5 contains allocations to municipalities; and

(d) Schedule 6 contains allocations-in-kind to provinces or municipalities for designated special programmes.

(2) A recommended division of anticipated allocations to provinces or municipalities for the next financial year and the 2004/2005 financial year and which is subject to the provisions of the annual Division of Revenue Act is set out in Column B of the Schedules referred to in subsection (1).

(3) Despite subsection (2), the Minister may, in respect of the next financial year and until the commencement of the Act of Parliament referred to in subsection (2), determine that an amount not exceeding 45 per cent of the recommended

division of the allocation for the next financial year set out in Schedule 3 or 4 or 5 be transferred to a province or municipality as a direct charge against the National Revenue Fund.

(4) Where an accounting officer has failed to provide the division of an allocation between provinces or municipalities by Budget Day 2002, such a division must be published by the Minister in a Gazette within 5 days of this Act taking effect

Transfers to public or private entities

8. Transfers to public or private entities in order to perform a function that is normally the responsibility of a province or municipality, must be regarded as transfers to such province or municipality.

Transfers not listed in Schedules

9. (1) The transfer of an allocation not listed in the Schedules contemplated in Part III of this Act may only be made with the permission of the Minister and must be published in the *Gazette.*

(2) The permission contemplated in subsection (1) may only be granted if—

(a) the allocation is approved by Parliament in an Adjustments Budget; or

(b) the allocation is for the purpose of defraying expenditure of an exceptional nature contemplated in section 16 of the Public Finance Management Act.

(3) The transferring national officer must, in respect of an allocation contemplated in subsection (1)—

(a) comply with the reporting and monitoring determined by National Treasury; and

(b) submit to the National Treasury an assessment of the likelihood for the province or municipality which receives, or benefits from it, to spend it or benefit from it in the financial year.

Supplementary allocation to provinces

10. (1) The National Treasury must, in accordance with a payment schedule, and after taking into account the following, transfer a supplementary allocation to provinces:

(a) The province's compliance with the Public Finance Management Act and its duty to implement that Act;

(b) the province's tabling of a realistic and credible budget which reflects adequate funding of projected expenditure for education, health, welfare and infrastructure;

(c) the steps taken by the province to improve the collection of its revenue; and

(d) the province's compliance with this Act, national legislation contemplated in sections 230 of the Constitution, and with resolutions of the Budget Council established in terms of the Intergovernmental Fiscal Relations Act.

Provincial infrastructure allocation

11. A Provincial Treasury must, in respect of an allocation for provincial infrastructure listed in Schedule 3, before the transfer of any funds, ensure that the province—

(a) submits to the National Treasury a prescribed plan on proposed spending for the financial year;

(b) submits to the National Treasury a prescribed plan on estimated spending for the next financial year, the 2004/2005 and 2005/2006 financial year; and

(c) indicates to what extent it will match the allocations contemplated in paragraphs *(a)* and *(b)*.

Municipal infrastructure allocations

12. (1) Allocations for addressing backlogs in basic municipal infrastructure and services set out in Schedule 5.

(2) Any allocation, contemplated in subsection (1) which is intended, entirely or in part, for the installation, maintenance or rehabilitation of municipal infrastructure, must—

(a) only be transferred in terms of a prescribed framework;

(b) be accompanied by an indication of the recommended amounts of a similar allocation for the next financial year and the 2004/2005 financial year, unless the National Treasury grants exemption from compliance with this requirement; and

(c) be in accordance with a distribution formula approved by the National Treasury.

(3) The National Treasury may, for the purposes of facilitating the consolidation of municipal infrastructure programmes, reallocate funds between programmes and votes of national departments if such funds are uncommitted or unlikely to be spent in the current financial year.

Transfer of assets to municipalities

13. A transferring national officer or a transferring provincial officer may not make any commitment to a municipality, of assets or any other financial resource, including an allocation-in-kind or a future asset transfer, intended, entirely or in part, for the installation, maintenance or rehabilitation of municipal infrastructure without—

(a) that municipality's confirmation that it will take transfer of such asset for operating purposes;

(b) a realistic estimate of the value of the future asset and potential liability, including a reflection on the budget of the benefiting municipality of the associated operating costs;

(c) the approval of the municipal council; and

(d) an indication to the Director-General of the steps taken or to be taken to ensure that such commitment will be converted to an allocation within the contemplation of this Part.

Municipal capacity building allocations

14. (1) Any transfer of an allocation aimed at developing and improving municipal systems and the capacity of municipalities to perform functions assigned to them may only be made in terms of a framework determined by the national accounting officer for local government in consultation with the Director-General.

(2) The objectives of the framework contemplated in subsection (1)*(a)* must take into account financial management, budgeting and spatial planning considerations.

PART IV

DUTIES OF ACCOUNTING OFFICERS AND TREASURIES

Duties of transferring national officer

15. (1) A transferring national officer must certify to the National Treasury that—

(a) all business plans that are required in respect of an allocation, are in terms of a framework determined by the department and approved by the National Treasury;

(b) frameworks, conditions and monitoring provisions are reasonable and do not impose an undue administrative burden on benefiting provincial and local governments;

(c) funds will be transferred after any prescribed information has been provided;

(d) funds will only be deposited into an accredited bank account of a province or municipality; and

(e) all other arrangements or requirements necessary for the transfer of an allocation have been complied with.

(2) A transferring national officer who has not complied with subsection (1) must, unless the National Treasury has, for exceptional reasons directed otherwise, transfer such funds unconditionally to provinces and municipalities: Provided that the Minister may determine that such funds be allocated on the basis of the equitable division formula.

(3) Despite anything to the contrary contained in any law, a transferring national officer must, in respect of any allocation, as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, 20 days after the end of each month and in the format determined by the National Treasury, submit to the National Treasury and the relevant executive authority information on—

(a) the amount transferred to a province or municipality in the month reported on, and for the financial year up to the end of that month;

(b) the amount of funds delayed or withheld from any province or municipality up to the end of that month;

(c) the actual expenditure incurred by the province or municipality in the month reported; and

(c) such other issues as the National Treasury may determine.

Duties of a transferring provincial officer

16. (1) A transferring provincial officer must, as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, and in respect of any allocation to be transferred to municipalities, within 15 days after the end of each month and in the format determined by the National Treasury, submit to the national transferring officer, the relevant Treasury and executive authority responsible for that department, information on—

(a) the amount transferred to a province or municipality in the month reported on;

(b) the amount of funds delayed or withheld from any province or municipality in the month reported on;

(c) actual expenditure in respect of that grant; and

(d) such other issues as the National Treasury may determine.

(2) A provincial accounting officer intending to make an allocation, other than an allocation listed in any Schedule to this Act, to a municipality from the provincial Revenue Fund, in the financial year must, by the prescribed date, provide the Provincial Treasury with the prescribed information and the Provincial Treasury must publish such information in the *Provincial Gazette.*

Duties of receiving officer

17. (1) The relevant receiving officer must, in respect of an allocation transferred to—

(a) a province, and as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, within 15 days after the end of each month, submit a report to the relevant Provincial Treasury, the relevant provincial executive authority and the transferring national officer; and

(b) a municipality, within 10 days after the end each month, submit a report to the relevant transferring national or provincial officer.

(2) The reports contemplated in subsection (1) must set out—

(a) the amount received by the province or municipality, as the case may be, in the month reported on;

(b) the amount of funds delayed or withheld from the province or municipality, as the case may be, in the month reported on;

(c) the actual expenditure by the province or municipality, as the case may be, for the month reported on;

(d) the extent of compliance with the conditions of an allocation and with this Act;

(e) an explanation for any material problems or variancies experienced by the province or municipality, as the case may be, regarding an allocation which has been received and a summary of the steps taken to deal with such problems or variancies; and

(f) such other issues and information as the National Treasury may determine.

Duties of Provincial Treasury

18. (1) A Provincial Treasury must, within 22 days after the end of each month and in the format determined by the National Treasury, and as part of its consolidated monthly report, report on—

(a) actual transfers received by the province from national departments or directly through public or private entities;

(b) the actual expenditure on such allocations, excluding the allocations contemplated in subsection (2), up to the end of that month; and

(c) any problems of compliance, by transferring provincial officers and receiving officers, with the provisions of this Act, and the steps taken to deal with such problems.

(2) The report contemplated in subsection (1) must, in respect of—

(a) the supplementary allocation to provinces, be made on 15 July 2002 and on 15 October 2002; and

(b) the provincial infrastructure allocation, be made at the end of each month.

Annual report and financial statements

19. (1) The annual report and financial statements contemplated in section 19 of the Public Finance Management Act must, for a department transferring funds in respect of an allocation set out in Schedules 3, 4, 5 and 6, also—

(a) indicate the total amount of that allocation transferred to a province or municipality during the financial year;

(b) indicate the funds, if any, which were withheld and the reasons for such withholding;

(c) certify that all transfers to a province were deposited into the accredited bank account of provinces and municipalities;

(d) certify that, except in respect of allocations contemplated in Schedule 6, no other funds were spent, directly or through a public or private entity, on a function normally performed by a province or municipality;

(e) indicate to what extent a province or municipality was monitored for compliance with the conditions of an allocation and the provisions of this Act;

(f) indicate to what extent the allocation achieved its purpose and outputs;

(g) indicate the funds, if any, utilised for the administration of the allocation, and whether any portion of the allocation was retained by the transferring department for such purpose; and

(h) indicate any non-compliance with this Act, and the steps taken to deal with such non-compliance.

(2) The annual report and financial statements contemplated in section 19 of the Public Finance Management Act must, for a department or municipality receiving grants in respect of an allocation set out in Schedules 3, 4, 5 and 6, also—

(a) indicate the total amount of that allocation received during the financial year;

(b) certify that all transfers in terms of this Act to a province or municipality were deposited into the accredited bank account;

(c) indicate to what extent a province or municipality met the conditions of such an allocation, and complied with the provisions of this Act;

(d) indicate the extent to which outputs were achieved; and

(e) contain such other information as the National Treasury may determine.

PART IV

DUTIES OF DIRECTOR-GENERAL AND AUDITOR-GENERAL

Duties of Director-General

20. The Director-General must—

(a) for the purposes of the report contemplated in section 32(2) of the Public Finance Management Act, publish a report on—

(aa) actual transfers of all allocations listed in the Schedules or in terms of section 9;

(bb) estimated expenditure on the provincial infrastructure allocation and on allocations listed in Schedules 4, 5 and 6; and

(b) report to the Auditor-General, within 40 days after the end of the second and the fourth quarter, the extent of compliance by accounting officers with the provisions of this Act, and any serious or persistent material non-compliance with the provisions of this Act.

Duties of Auditor-General

21. (1) Without derogating from the powers and duties of the Auditor-General in terms of the Constitution and any other law, the Auditor-General must, in the audit of financial statements on the allocations set out in Part III, report on—

(a) the extent of compliance with this Act by the Director-General, transferring national officers, transferring provincial officers and receiving officers;

(b) whether there was compliance with the certification and reporting requirements of this Act;

(c) whether, in respect of any monthly report or annual report, a department's internal audit dealt with any deliberate attempt to provide misleading information;

(d) whether a transferring national officer or transferring provincial officer made unauthorised transfers to any province or municipality or to any entity under the control of a province or municipality; and

(e) whether the monitoring of the receiving government's compliance with allocation conditions was undertaken in terms of the provisions contemplated in this Act.

PART V

GENERAL

Delaying of payments

22. (1) The transferring national officer may, for a period not exceeding 30 days, delay the payment of an allocation in terms of Part III, if the province or municipality which receives, or benefits from, such allocation, does not comply with the conditions to which the allocation is subject, or if expenditure on previous transfers reflects significant underspending for which no satisfactory explanation is provided.

(2) The transferring national officer must, in the monthly reports contemplated in this Act, inform the National Treasury of the reasons for the decision to delay the payment of an allocation and of the steps taken to deal with the causes of the payment delay.

Withholding of payments

23. (1) The National Treasury may direct that any allocation to a municipality or province in terms of section 5 or set out in Schedule 3, 5 or 6, or any portion of such allocation, be withheld if a municipality or province committed a serious or persistent material breach of the measures contemplated in section 216(1) of the Constitution.

(2) The National Treasury may, subject to section 216 of the Constitution, direct that—

(a) an allocation or any portion of it referred to in Schedule 3, 4, 5 or 6; or

(b) an allocation approved in terms of section 9,

be withheld if the transferring national officer has submitted to the province concerned, a written report at least 21 days before such allocation is due to be transferred, setting out facts reflecting serious or persistent material breach of the measures contemplated in section 216(1) of the Constitution: Provided that—

(aa) a supplementary allocation to provinces may be withheld even if a report has not been given to a province; and

(bb) an allocation to a province may be withheld if that province has not responded in writing to the Auditor-General regarding queries in the audit reports and the Auditor-General recommends such withholding.

(3) For the purposes of this section, the following conduct may be taken into account to determine a serious breach of the measures contemplated in section 216(1) of the Constitution has been committed:

(a) A failure by a municipality or province to meet its statutory financial obligations, including all payments of employee or employer contributions for taxes, pensions, medical aid and audit fees;

(b) a failure by a province or municipality to submit satisfactory financial statements within two months after the end of its financial year;

(c) a failure by a municipality or province to reply to and comply with audit queries raised in respect of the previous years' audited financial statements;

(d) non-compliance with the conditions to which an allocation is subject and the mismanagement of an allocation; and

(e) non-compliance with the provisions of this Act.

(4) The Minister may, by notice in the *Gazette*, approve that an allocation or a portion of it withheld in terms of subsection (1), be utilised to meet a municipality's outstanding statutory financial commitments.

Reallocation of allocations between municipalities

24. The transferring officer may, with the consent of the National Treasury, reallocate an allocation or portion thereof from one municipality to another municipality, provided that:

(1) the municipalities concerned are consulted prior to any reallocation;

(2) the reallocation is for the purposes of improved cash-flow management and will prevent underspending of funds in the financial year;

(3) a justification of the reasons for the reallocation is provided to the National Treasury; and

(4) the Minister publishes such a reallocation in a Gazette.

Spending in terms of purpose and subject to conditions

25. (1) Despite anything to the contrary contained in any law, an allocation set out in Schedule 3, 4, 5 or 6 may only be utilised for the purpose stipulated in the Schedule concerned and in accordance with the conditions it is subject to.

(2) The utilisation of an allocation set out in the Schedules or the provincial infrastructure allocation for purposes other than those set out in the Schedules concerned, constitutes a breach of the measures established in terms of section 216(1) of the Constitution.

(3) Despite subsections (2) and (3), the National Treasury may authorise a province or municipality to retain and utilise such portion of an allocation set out in Part III Schedules, which remains after the fulfillment of its purpose, and compliance with the conditions to which it is subject.

(4) The Minister may, by notice in the *Gazette*, determine that funds which, due to non-compliance by the transferring national officer with the provisions of this Act, cannot flow to a province or municipality, be allocated unconditionally to provinces or municipalities.

Transfers made in error

26. (1) Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province for the purpose of its Revenue Fund.

(2) A transfer contemplated in subsection (1) must be recovered without delay by the responsible transferring national officer.

(3) The Director-General may direct that the recovery contemplated in subsection (1) be effected by set-off against future transfers to the province, which would otherwise become due in accordance with a payment schedule or any other transfer.

(4) Despite anything to the contrary contained in any law, the transfer of an allocation to a municipality in error is regarded as not legally due to that municipality and must be recovered without delay by the responsible transferring national officer.

(5) The national accounting officer responsible for local government may direct that the recovery contemplated in subsection (4) be effected by set-off against transfers to the municipality concerned, which would otherwise become due in accordance with any payment schedule.

Transfers to municipalities with weak administrative capacity

27. (1) If the national accounting officer responsible for local government reasonably believes that a municipality is not able to effectively administer an allocation or a portion of it, that officer may transfer such allocation or portion of it to the province in which the municipality is located or, when appropriate, to the relevant Category C municipality, after consultation with the municipalities and province concerned.

(2) Any allocation or portion of it contemplated in subsection (1) must be dealt with by the province or Category C municipality to which it has been transferred in

accordance with any directions by the national accounting officer responsible for local government.

(3) The national accounting officer responsible local government must publish in the *Gazette* information on the transfer of an allocation contemplated in subsection (1).

Funds to follow transfer of functions or obligations

28. (1) The transfer of functions or obligations from one organ of state to another or from one sphere of government to another must take place with the prior written approval of the National Treasury and the national accounting officer responsible for provincial and local government and, unless the Minister has directed otherwise, includes the transfer of funds available to the transferring organ of state or sphere of government for performing such functions or obligations.

(2) Despite anything to the contrary contained in this Act or any other law, the National Treasury may, for the purpose of facilitating the transfer of funds contemplated in subsection (1), stop the transfer of funds to the transferring organ of state or sphere of government.

(3) No financial obligation or function of a national or provincial department may be imposed on a municipality without—

(a) that municipality's prior written acceptance by resolution of its council; and

(b) the prior written approval of the National Treasury.

(4) A province must utilise its own funds for any obligation which is in conflict with subsection (3).

(5) Any obligation arising from a determination of functions between a category C and B municipality by a province in terms of section 84 or 85 of the Municipal Structures Act, is a liability of the province and not of the national government.

Amendment of payment schedule and transfer mechanism

29. (1) Subject to subsections (2) and (3), a transferring national officer may, in respect of an allocation set out in Schedule 4 or 5, amend a payment schedule due to the underspending of the funds or for any other exceptional reason.

(2) The transferring national officer must inform the National Treasury within seven days of the amendment contemplated in subsection (1) and the reasons for it.

(3) The National Treasury may, in the interest of improved debt and cash-flow management, or on the grounds of substantial non-compliance with any condition to which an allocation is subject, amend any payment schedule of an allocation listed in Schedule 3, 4 or 5, and direct that no transfer of funds be effected through the payment schedule amended in accordance with subsection (1) or that the payment schedule be amended as directed by it.

Exemptions by National Treasury

30. (1) The National Treasury may, on application in writing by a transferring national or provincial officer, exempt in writing a transferring national or provincial officer from the duty to comply with reporting requirements or any other requirements or any other duty regarding an allocation set out in a Part III Schedule or envisaged in section 9: Provided that such exemption may only be granted if such officer satisfies the Director-General—

(a) the duty cannot be complied with at that stage;

(b) the allocation programme is properly designed; and

(c) the accounting officer is taking steps to comply with the provisions of this Act of the financial year.

(2) Any exemption contemplated in subsection (1)—

(a) may only be granted if the accounting officer can provide reasons why information was not included in respect of an allocation listed in a Schedule; and

(b) any condition to which it may be subject, must be published in the *Gazette.*

Non-compliance with this Act constituting financial misconduct

31. Despite anything to the contrary contained in any law, any serious or persistent non-compliance with the provisions of this Act, or the conditions which any allocation in terms of this Act is subject to, constitutes financial misconduct.

Liability for costs incurred in violation of principles of co-operative governance and intergovernmental relations

32. (1) An organ of state involved in an intergovernmental dispute regarding an allocation provided for in this Act must, before approaching a court to resolve such dispute, make every effort to settle the dispute with the other organ of state concerned, including by making use of the structures established in terms of the Intergovernmental Fiscal Relations Act.

(2) In the event that a dispute is referred back by a court in accordance with section 41(4) of the Constitution, due to the court not being satisfied that the organ of state approaching the court has complied with subsection (1), the expenditure incurred by that organ in approaching the court is regarded as fruitless and wasteful.

(3) The amount of any such fruitless and wasteful expenditure must, in terms of a prescribed procedure, be recovered without delay from the person who caused the organ of state not to comply with the requirements of subsection (1).

Acts performed prior to commencement of this Act

33. Despite anything to the contrary contained in any law, any act performed prior to the coming into effect of this Act or in accordance with any prescribed requirements in fulfillment of the objects of this Act is regarded as having been done in terms of the relevant provisions of this Act.

Regulations

34. The Minister may, by notice in the *Gazette*, make regulations regarding—

(a) anything which must or may be prescribed in terms of this Act; and

(b) any matter which is necessary to prescribe for the effective implementation of the provisions and objects of this Act.

Repeal of Act

35. This section repeals the whole of the Division of Revenue Act, 2001 (Act No. 1 of 2001) with effect from 1 April 2001 or the date of commencement of this Act, whichever is later: Provided that such repeal does not affect any prescribed act in terms of that Act, which is necessary for the effective implementation of the provisions and objects of this Act.

Short title

36. This Act is called the Division of Revenue Act, 2002 and comes into operation on a date determined by the President by proclamation in the *Gazette*.

SCHEDULE 1

Equitable division of revenue raised nationally among the three spheres of government

Sphere of Government	Column A	Column B	
	2002/03	MTEF Outer Years	
	Allocation	2003/04	2004/05
	R'000	R'000	R'000
National[1]	113 044 551	120 818 815	128 045 873
Provincial	116 142 006	124 855 675	133 078 054
Local	3 429 000	4 598 000	5 037 060
TOTALS[2]	**232 615 557**	**250 272 490**	**266 160 987**

1. National share includes conditional grants to provincial and local spheres.
2. Small rounding differences may exist between the numbers in these Schedules and the Explanatory Memorandum. It should be noted that these numbers are provisional and may change marginally when the final Budget is tabled on 20 February 2002.

SCHEDULE 2

Determination of each province's equitable share of the provincial sphere's share of revenue raised nationally (as a direct charge against the National Revenue Fund)

Province	Column A	Column B	
	2002/03	MTEF Outer Years	
	Allocation	2003/04	2004/05
	R'000	R'000	R'000
Eastern Cape	19 932 254	21 244 697	22 643 768
Free State	7 773 621	8 297 659	8 844 102
Gauteng	17 719 958	19 182 559	20 445 827
KwaZulu-Natal	23 669 174	25 674 464	27 365 258
Mpumalanga	8 193 770	8 961 317	9 551 465
Northern Cape	2 823 693	3 029 840	3 229 370
Northern Province	15 698 945	16 969 655	18 087 193
North West	9 715 606	10 366 138	11 048 801
Western Cape	10 614 985	11 129 346	11 862 270
TOTALS	**116 142 006**	**124 855 675**	**133 078 054**

SCHEDULE 3

GENERAL AND NATIONALLY ASSIGNED FUNCTION GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Health (Vote 15)	(a) National Tertiary Services Grant	To fund tertiary services in order to ensure equitable access by all residents and to ensure collective planning for service delivery	Specific Assigned Function Grant to Provinces	Eastern Cape	123 746	190 516	264 303	
				Free State	287 424	327 915	373 245	
				Gauteng	1 602 981	1 636 902	1 678 625	
				KwaZulu-Natal	480 679	537 752	601 853	
				Mpumalanga	38 413	39 237	40 249	
				Northern Cape	24 062	32 052	40 908	
				Northern Province	44 838	45 116	45 545	
				North West	34 189	34 107	34 111	
				Western Cape	1 030 510	1 049 252	1 072 703	
				TOTALS	**3 666 842**	**3 892 849**	**4 151 542**	
	(b) Health Professions Training and Development Grant	To support the training and development of health professionals	Specific Assigned Function Grant to Provinces	Eastern Cape	70 169	80 182	105 870	
				Free State	88 192	87 763	87 565	
				Gauteng	528 137	525 570	524 384	
				KwaZulu-Natal	160 495	156 178	179 303	
				Mpumalanga	30 347	34 456	45 277	
				Northern Cape	27 573	29 027	35 875	
				Northern Province	34 113	41 827	58 041	
				North West	32 058	37 806	51 077	
				Western Cape	308 164	306 666	305 974	
				TOTALS	**1 279 248**	**1 299 475**	**1 393 366**	
National Treasury (Vote 7)	(a) Supplementary Allocation Grant	To supplement provincial revenue in support of improvements in budgeting and financial management practice	General Conditional Grant to Provinces	Eastern Cape	355 339	357 409	358 249	
				Free State	147 964	147 016	147 676	
				Gauteng	342 243	338 376	340 056	
				KwaZulu-Natal	429 690	431 366	432 386	
				Mpumalanga	152 199	158 647	159 367	
				Northern Cape	58 825	59 733	60 213	
				Northern Province	282 441	286 928	287 648	
				North West	178 406	180 150	180 810	
				Western Cape	204 893	198 375	199 395	
				TOTALS	**2 152 000**	**2 158 000**	**2 165 800**	

SCHEDULE 3

GENERAL AND NATIONALLY ASSIGNED FUNCTION GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
	(b) Provincial Infrastructure Grant	To fund provincial infrastructure like roads, school buildings, health facilities and rural development	General Conditional Grant to Provinces	Eastern Cape	286 107	428 504	531 220	
				Free State	93 913	140 653	173 878	
				Gauteng	157 084	235 266	288 841	
				KwaZulu-Natal	331 123	495 925	612 837	
				Mpumalanga	118 961	178 168	220 569	
				Northern Cape	52 997	71 931	81 930	
				Northern Province	278 519	417 139	515 245	
				North West	135 086	202 320	250 472	
				Western Cape	96 210	144 094	177 848	
				TOTALS	1 550 000	2 314 000	2 852 840	
	(c) Provincial Infrastructure Grant - Flood Rehabilitation	To fund the reconstruction of flood damaged provincial infrastructure	General Conditional Grant to Provinces	Eastern Cape	70 000	23 000	-	
				Free State	58 000	21 000	-	
				Gauteng	-	-	-	
				KwaZulu-Natal	-	-	-	
				Mpumalanga	90 000	36 000	-	
				Northern Cape	-	-	-	
				Northern Province	182 000	120 000	-	
				North West	-	-	-	
				Western Cape	-	-	-	
				TOTALS	400 000	200 000	-	

SCHEDULE 4

GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Agriculture (Vote 24)	(a) Poverty Relief and Infrastructure Development (This grant is not included in the provincial share at this stage)	To address the degradation problems of natural resources and improve the socio-economic status of rural communities	Conditional Grant	Eastern Cape	6 000	To be allocated	-	
				Free State	1 400		-	
				Gauteng	-		-	
				KwaZulu-Natal	4 000		-	
				Mpumalanga	2 000		-	
				Northern Cape	1 300		-	
				Northern Province	5 000		-	
				North West	3 000		-	
				Western Cape	1 300		-	
				TOTALS	24 000	40 000	-	
Education (Vote 14)	(a) Financial Management and Quality Enhancement	To support financial management and quality-enhancing initiatives in school education	Conditional Grant	Eastern Cape	41 500	43 367	45 969	
				Free State	14 132	14 768	15 654	
				Gauteng	27 591	28 833	30 563	
				KwaZulu-Natal	49 575	51 805	54 914	
				Mpumalanga	16 375	17 112	18 139	
				Northern Cape	4 262	4 454	4 721	
				Northern Province	35 218	36 803	39 011	
				North West	17 946	18 753	19 878	
				Western Cape	17 721	18 519	19 630	
				TOTALS	224 320	234 414	248 479	
	(b) Early Childhood Development	To provide quality education care to children eligible to the reception year, particularly the poorest children in our society	Conditional Grant	Eastern Cape	9 620	16 280	-	
				Free State	3 276	5 544	-	
				Gauteng	6 396	10 824	-	
				KwaZulu-Natal	11 492	19 448	-	
				Mpumalanga	3 796	6 424	-	
				Northern Cape	988	1 672	-	
				Northern Province	8 164	13 816	-	
				North West	4 160	7 040	-	
				Western Cape	4 108	6 952	-	
				TOTALS	52 000	88 000	-	

SCHEDULE 4

GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
	(c) HIV/AIDS	To promote HIV/AIDS education in primary and secondary schools	Conditional Grant	Eastern Cape	26 270	21 719	23 111	
				Free State	8 946	7 396	7 870	
				Gauteng	17 466	14 440	15 366	
				KwaZulu-Natal	31 382	25 945	27 608	
				Mpumalanga	10 366	8 570	9 119	
				Northern Cape	2 698	2 231	2 374	
				Northern Province	22 294	18 432	19 613	
				North West	11 360	9 392	9 994	
				Western Cape	11 218	9 275	9 869	
				TOTALS	**142 000**	**117 400**	**124 924**	
Health (Vote 15)	(a) Hospital Revitalisation	To transform and modernise hospitals in line with the national planning framework	Conditional Grant	Eastern Cape	81 000	84 645	89 724	
				Free State	17 000	17 765	18 831	
				Gauteng	105 000	109 725	116 308	
				KwaZulu-Natal	90 000	94 050	99 693	
				Mpumalanga	45 000	47 025	49 847	
				Northern Cape	10 000	10 450	11 077	
				Northern Province	92 000	96 140	101 908	
				North West	50 000	52 250	55 385	
				Western Cape	30 000	31 350	33 231	
				TOTALS	**520 000**	**543 400**	**576 004**	
	(b) Pretoria Academic Hospital	To fund the construction and development of the Pretoria Academic Hospital	Conditional Grant	Gauteng	70 000	90 000	-	
				TOTALS	**70 000**	**90 000**	-	

SCHEDULE 4

GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
	(c) HIV/AIDS (Allocations include amounts of about R25m, R26m and R27m in each year that are excluded from the total conditional grants to provinces)	To expand access to voluntary HIV counseling and testing	Conditional Grant	Eastern Cape	21 130	37 947	56 751	
				Free State	13 953	23 235	31 775	
				Gauteng	23 253	40 706	58 863	
				KwaZulu-Natal	39 260	63 523	88 996	
				Mpumalanga	15 606	25 621	34 852	
				Northern Cape	14 134	24 432	34 808	
				Northern Province	6 712	9 255	11 137	
				North West	14 401	27 215	41 976	
				Western Cape	8 760	14 642	21 322	
				TOTALS	157 209	266 576	380 480	
	(d) Integrated Nutrition Programme	To feed primary school children, facilitate nutrition education and health promotion	Conditional Grant	Eastern Cape	131 838	131 838	139 748	
				Free State	39 394	39 394	41 758	
				Gauteng	54 673	54 673	57 953	
				KwaZulu-Natal	132 471	132 471	140 419	
				Mpumalanga	39 728	39 728	42 112	
				Northern Cape	10 096	10 096	10 702	
				Northern Province	106 032	106 032	112 394	
				North West	39 390	39 390	41 754	
				Western Cape	28 789	28 789	30 516	
				TOTALS	582 411	582 411	617 356	
Housing (Vote 16)	(a) SA Housing Fund	To finance capital housing programmes	Conditional Grant	Eastern Cape	571 485	627 253	581 876	
				Free State	283 097	316 064	374 679	
				Gauteng	801 940	896 830	1 085 699	
				KwaZulu-Natal	708 759	778 263	727 186	
				Mpumalanga	242 038	268 228	288 030	
				Northern Cape	75 809	83 807	86 900	
				Northern Province	381 767	417 204	359 305	
				North West	302 001	337 769	409 400	
				Western Cape	372 778	412 480	433 357	
				TOTALS	3 739 674	4 137 898	4 346 432	

SCHEDULE 4

GRANTS TO PROVINCES

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
	(b) Human Settlement	To fund projects aimed at improving the quality of the environment in urban communities	Conditional Grant	Eastern Cape	10 000	11 000	11 660	
				Free State	7 500	8 500	9 010	
				Gauteng	23 000	21 000	22 260	
				KwaZulu-Natal	25 000	26 000	27 560	
				Mpumalanga	6 000	7 000	7 420	
				Northern Cape	2 500	3 000	3 180	
				Northern Province	11 000	11 000	11 660	
				North West	6 000	8 000	8 480	
				Western Cape	13 000	13 500	14 310	
				TOTALS	104 000	109 000	115 540	
Social Development (Vote 17)	(a) Financial Management and Social Security System	To improve the financial management, administration and functioning of social security system	Conditional Grant	Eastern Cape	1 200	-	-	
				Free State	1 200	-	-	
				Gauteng	1 200	-	-	
				KwaZulu-Natal	1 200	-	-	
				Mpumalanga	1 200	-	-	
				Northern Cape	1 200	-	-	
				Northern Province	1 200	-	-	
				North West	1 200	-	-	
				Western Cape	1 200	-	-	
				TOTALS	10 800	-	-	
	(b) HIV/AIDS	To advance the development of home-based care (HBC) programmes in communities	Conditional Grant	Eastern Cape	4 697	6 488	6 887	
				Free State	6 510	8 993	9 546	
				Gauteng	6 836	9 443	10 023	
				KwaZulu-Natal	8 462	11 690	12 410	
				Mpumalanga	6 928	9 571	10 160	
				Northern Cape	2 604	3 597	3 818	
				Northern Province	3 069	4 240	4 500	
				North West	5 348	7 387	7 841	
				Western Cape	2 046	2 826	3 000	
				TOTALS	46 500	64 235	68 185	

SCHEDULE 5

GRANTS TO LOCAL GOVERNMENT RELATED TO THE EQUITABLE SHARE

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Provincial and Local Government (Vote 5)	(a) Transition Grant	To assist municipalities with significant once-off costs of amalgamating and establishing new structures following the demarcation process		Allocations to be published on Budget Day, 2002	200 000	-	-	
				TOTALS	200 000	-	-	
Water Affairs (Vote 33)	(a) Water Services Operating Subsidy (via Augmentation to the Water Trading Account)	To augment the Water Trading Account (Sub-Programme 4) of DWAF thus providing subsidies to users of water schemes that are owned by the department and either directly operated by the department or by other agencies on behalf of the department		Allocations to be published on Budget Day, 2002	644 000	662 000	702 000	
				TOTALS	644 000	662 000	702 000	

SCHEDULE 5

CAPACITY BUILDING AND RESTRUCTURING GRANT TO LOCAL GOVERNMENT

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Provincial and Local Government (Vote 5)	(a) Local Government Support Grant	To assist medium and small municipalities experiencing severe financial problems to restructure their financial positions and organisations over the medium term		Allocations to be published on Budget Day, 2002				
	(b) Municipal Systems Improvement Grant	To support municipalities in implementing new systems as provided in the Municipal Systems Act, 2000. These new systems include IDP's, performance management, and related local public sector management reforms, which must be within that municipality's budgetary framework. In addition, the grant will also cover Land Affairs commitments for LDO/Spatial planning activities		Allocations to be published on Budget Day, 2002				
National Treasury (Vote 7)	(a) Local Government Restructuring Grant	To modernise large municipalities and to make them more effective and efficient service delivery authorities through assisting them to restructure their organisations, functions and fiscal positions. National government will support municipal plans to the extent that they offer significant benefits to national economic stability and development		Allocations to be published on Budget Day, 2002				
	(b) Financial Management Grant	To promote and support reforms to municipal financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems in municipalities and implementation of the Municipal Financial Management Act		Allocations to be published on Budget Day, 2002				
TOTAL ALLOCATION FOR CAPACITY BUILDING AND RESTRUCTURING					818 000	838 000	870 000	

SCHEDULE 5

INFRASTRUCTURE GRANTS TO LOCAL GOVERNMENT

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Provincial and Local Government (Vote 5)	(a) Consolidated Municipal Infrastructure Programme (CMIP)	To provide internal bulk, connector and internal infrastructure and community services and facilities for low income households		Allocations to be published on Budget Day, 2002				
	(b) LED Fund and Social Plan Measures	Supports to planning and implementation of municipal job creation and poverty alleviation projects		Allocations to be published on Budget Day, 2002				
Sport and Recreation (Vote 18)	(a) Building for Sport and Recreation Programme	Promotion of sport and recreation within disadvantaged communities by development of new and ungrading existing sports facilities and empowerment of communities to manage the facilities in co-operation with the local municipality		Allocations to be published on Budget Day, 2002				
Department of Public Works (Vote 30)	(a) Community Based Public Works Programme	Creation of community assets in rural disadvantaged communities and empowerment of the communities to manage the facilities in co-operation with the local municipality. Employment of community during construction and promotion of long term jobs associated with the facilities		Allocations to be published on Budget Day, 2002				
Department of Transport (Vote 32)	(a) Urban Transport Fund	To promote planning of intermodal land transport infrastructure and operations, facilitation of integrated land use and land transport planning and development		Allocations to be published on Budget Day, 2002				
Department of Water Affairs (Vote 33)	(a) Implementation of Water Services Projects	To fund for bulk , connector and internal capital infrastructure for basis water services infrastructure at a basic level of service, and implement such projects where municipalities lack the required capacity to do so		Allocations to be published on Budget Day, 2002				
TOTAL ALLOCATION FOR MUNICIPAL INFRASTRUCTURE GRANT					2 880 000	3 415 000	3 783 000	

SCHEDULE 5

INFRASTRUCTURE GRANTS TO LOCAL GOVERNMENT

Vote	Name of Grant	Purpose	Type of Grant	Province	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Department of Mineral and Energy Affairs (Vote 29)	(a) National Electrification Programme	To implement the National Electrification Programme through providing capital subsidies to Eskom and licensed municipalities to address the electrification backlog in permanently occupied residential dwellings		Allocations to be published on Budget Day, 2002	210 000	210 000	210 000	
				TOTALS	**210 000**	**210 000**	**210 000**	

SCHEDULE 6

INDIRECT GRANTS TO PROVINCES AND MUNICIPALITIES

Vote	Name of Grant	Purpose	Type of Grant	Province/ Municipality	2002/03 Allocation R'000	MTEF Outer Years 2003/04 R'000	MTEF Outer Years 2004/05 R'000	Additional Conditions
Arts, Culture and Technology (Vote 13)	(a) Poverty Alleviation	To fund Poverty Relief projects in the areas of Cultural Industries, Development, Cultural Tourism and Heritage Development	Indirect Transfer	Eastern Cape	2 985	9 297	-	
				Free State	1 971	4 803	-	
				Gauteng	4 597	2 000	-	
				KwaZulu-Natal	4 336	5 154	-	
				Mpumalanga	2 370	2 320	-	
				Northern Cape	2 307	2 548	-	
				Northern Province	1 770	2 314	-	
				North West	3 225	5 027	-	
				Western Cape	1 641	2 780	-	
				Unallocated	4 798	5 757	-	
				TOTALS	30 000	42 000	-	
Education (Vote 14)	(a) Thuba Makote: Schools as Centres for Community Development	To develop and pilot a cost effective approach to the design, construction and management of school facilities which will also meet the developmental needs of rural communities	Indirect Transfer	Eastern Cape	5 000	10 700	-	
				Free State	5 000	10 700	-	
				Gauteng	4 000	5 300	-	
				KwaZulu-Natal	5 000	10 700	-	
				Mpumalanga	5 000	10 600	-	
				Northern Cape	-	-	-	
				Northern Province	5 000	10 700	-	
				North West	5 000	5 300	-	
				Western Cape	-	-	-	
				TOTALS	34 000	64 000	-	
	(b) National Ikhwelo Projects	To provide access to skills development in General Education and Training for adult learners to enhance their social and economic capacity	Indirect Transfer	Eastern Cape	7 400	9 250	-	
				Free State	2 520	3 150	-	
				Gauteng	4 920	6 150	-	
				KwaZulu-Natal	8 840	11 050	-	
				Mpumalanga	2 920	3 650	-	
				Northern Cape	760	950	-	
				Northern Province	6 280	7 850	-	
				North West	3 200	4 000	-	
				Western Cape	3 160	3 950	-	
				TOTALS	40 000	50 000	-	

SCHEDULE 6

INDIRECT GRANTS TO PROVINCES AND MUNICIPALITIES

Vote	Name of Grant	Purpose	Type of Grant	Province/ Municipality	2002/03 Allocation R'000	MTEF Outer Years		Additional Conditions
						2003/04 R'000	2004/05 R'000	
Social Development (Vote 17)	(a) Poverty Relief	To increase the self-reliance and improve social cohesion of specific demographic groups such as women, youth, children disabled and aged who are particularly vulnerable to the conditions associated with poverty	Indirect Transfer	Eastern Cape	16 179	10 449	-	
				Free State	8 690	5 774	-	
				Gauteng	4 386	3 190	-	
				KwaZulu-Natal	17 429	11 274	-	
				Mpumalanga	10 446	6 874	-	
				Northern Cape	4 315	2 887	-	
				Northern Province	15 633	10 229	-	
				North West	8 646	5 827	-	
				Western Cape	3 811	2 942	-	
				TOTALS	89 535	59 446	-	

MEMORANDUM ON THE OBJECTS OF THE DIVISION OF REVENUE BILL

1. Section 214(1) of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) ("the Constitution") requires that an Act of Parliament be enacted to provide for the following:

1.1 The equitable division of revenue raised nationally among the national, provincial and local spheres of government;

1.2 The determination of each province's equitable share of the provincial share of that revenue; and

1.3 Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.

2. Section 10 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) ("the Act") requires that, as part of the process of the enactment of the Act of Parliament referred to in paragraph 1, each year when the annual budget is introduced, the Minister of Finance ("the Minister") must introduce in the National Assembly, a Division of Revenue Bill ("the Bill") for the financial year to which that budget relates.

3. The Act requires that the Bill be accompanied by a memorandum explaining-

3.1 How the Bill takes account of each of the matters listed in section 214(2)(a) to (j) of the Constitution;

3.2 The extent to which account was taken of any recommendations of the Financial and Fiscal Commission ("the FFC") submitted to the Minister or as a result of consultations with the FFC; and

3.3 Any assumptions or formulae used in arriving at the respective shares of the three spheres of government and the division of the provincial share between the nine provinces.

4. The Bill is introduced in compliance with the requirements of the Constitution and the Act as set out in paragraphs 1 and 2 above.

5. The memorandum referred to in paragraph 3 above will be attached as "Annexure E" in the Budget Review which will be made available on Budget Day.

6. The allocations contemplated in section 214(1) of the Constitution are set out in 6 Schedules to the Bill, namely-

6.1 Schedule 1 which sets out the respective shares of anticipated revenue raised nationally in respect of the national, provincial and local spheres of government;

6.2 Schedule 2 which sets out the respective shares of each province;

6.3 Schedule 3 which sets out general and nationally-assigned function allocations from the national sphere of government's share to provinces and conditions they are subject to;

6.4 Schedule 4 which sets out specific-grant allocations to provinces only and the conditions they are subject to;

6.5 Schedule 5 which sets out allocations to municipalities only and the conditions they are subject to; and

6.6 Schedule 6 contains indirect and special allocations to provinces and municipalities and the conditions, if any, they are subject to.

7. The Bill builds on the provisions of the Division of Revenue Act, 2001 (Act No 1 of 2001) ("the Division of Revenue Act") and deals with a number of matters consequential upon policy changes, set out *inter alia* in the 2001 Intergovernmental Fiscal Review. Given improved co-ordination and regulation of intergovernmental fiscal transfers introduced previously, this year's Bill does not propose material changes to the 2001 Division of Revenue Act. It amends only those sections where problems have been identified.

7.1 The Bill assumes that future grant frameworks will be finalised well before the start of the financial year. The frameworks and plans for the municipal infrastructure grant and the municipal capacity building grants will be completed by 31 January 2002. This will enable all departments to include such plans/frameworks in their strategic plans by 7 March 2002.

7.2 The Bill also addresses the funding of fiscally-weak category B and C municipalities. The institutional ("I") component of the equitable share to local government will be adjusted to contribute towards the costs of governance (including councillor remuneration) for such municipalities. It will also enable fiscally-weak category C municipalities that provide basic services directly to receive equitable share allocations.

7.3 The Bill assumes that all grants to local government are divided between municipalities by Budget Day.

8. The following is a brief summary of the Bill:

Section 1 contains the relevant definitions;

Section 2 sets out the object of this Bill, which is essentially the promotion of co-operative governance in intergovernmental budgeting;

Section 3 provides for the equitable division of anticipated revenue raised nationally among the national, provincial and local spheres of government in Schedule 1;

Section 4 provides for each province's equitable share, which is set out in Schedule 2, and for a payment schedule in terms of which such shares must be transferred;

Section 5 provides for local government's equitable share of revenue and the determination of each municipality's share of that revenue;

Section 6 determines what must happen if actual revenue raised falls short of anticipated revenue for the financial year;

Section 7 provides for other allocations to provinces and municipalities from the national government's equitable share, set out in Schedules 3, 4, 5 and 6 to the Bill;

Section 8 provides for transfers to public and private entities;

Section 9 provides for the process of dealing with allocations to provinces and municipalities which are not set out in the Schedules to the Bill;

Section 10 provides the factors that must be taken into account before the transfer of the supplementary allocation to a province may be made.

Section 11 provides for a provincial to submit information in respect of the infrastructure allocation for construction, maintenance and rehabilitation;

Sections 12 to 14 provide for municipal infrastructure and capacity building grants;

Sections 15 to 21 set out the responsibilities of accounting officers, provincial treasuries, the Director-General: National Treasury and the Auditor-General;

Section 22 provides a framework for the delay in payment of allocations in the event of non-compliance with conditions or underspending;

Section 23 provides for the steps which must be taken and the factors which must be considered before an allocation may be withheld from a province or municipality;

Section 24 allows for reallocations between municipalities;

Section 25 requires that an allocation set out in Schedule 3 or 4 or 5 or 6 only be utilised for its purpose and subject to its conditions;

Section 26 provides for the correction of any allocation in error;

Section 27 provides that an allocation to a municipality with weak administrative capacity must be transferred to a stronger district municipality for its benefit;

Section 28 allows for funds to follow functions or obligations and requires that no financial obligation may be imposed on a municipality;

Section 29 provides for the amendment of a payment schedule and transfer mechanism by the Director-General: National Treasury;

Section 30 enables the Director-General: National Treasury to exempt an accounting officer from reporting requirements and other responsibilities;

Section 31 provides that non-compliance constitutes financial misconduct;

Section 32 provides for responsibility for costs incurred for litigation in violation of the principles of co-operative governance and intergovernmental relations;

Section 33 provides that any act performed prior to the commencement of this Act and in fulfilment of its objects will be deemed as been done in terms of its' provisions;

Section 34 provides that the Minister may make regulations regarding any matter which may or must be prescribed or which is necessary effective implementation;

Section 35 makes provision to repeal the Division of Revenue Act, 2001;

Section 36 sets out the short title of this Act.

9. PARLIAMENTARY PROCEDURE

The Bill must be dealt with in accordance with the procedure set out in section 76(1) of the Constitution as it provides for legislation required in Chapter 13 of the Constitution, and affects the financial interests of the provincial sphere as contemplated in section 76(4)(b) of the Constitution.