

060216pc finance
saved as revenue bills.

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Division of Revenue Bill 2006 [B3-2006]

Portfolio Committee on Finance
National Assembly

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16 February 2006



Outline

- Lay out of Bill and contents
- Fiscal Framework
- FFC proposals and government's response
- Provincial & LG allocations
- Division of Revenue Bill
 - Changes to the 2005 Division of Revenue Act

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Intergovernmental Fiscal System

- **The Constitution and IGFR Act**
 - Require an annual Division of Revenue Bill
 - Section 214 of Constitution
 - Section 10(5) of the Intergovernmental Fiscal Relations Act gives effect to Constitution ito of
 - Consultation processes for allocations with Budget Council, Budget Forum and FFC
 - Explanatory memorandum (Annexure E) on formulae etc
- **Consultations take place with**
 - Budget Council and Budget Forum
 - 2 Budget Forum meetings this year
 - National Departments
 - Extended Cabinet with provincial Premiers and chairperson of SALGA

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2006 Budget Timeframes

- Tabling of Division of Revenue Bill with National Budget (DoR) 15 Feb 2006
- **Tabling of provincial budgets**
 - 17 Feb to 22 Feb in terms of PFMA
 - **Consolidated spending figures in Budget Review Table 7.17 are initial projections only**
 - Provincial Revenue and Expenditure Review will provide final consolidated figures on provincial budgets
 - **Municipal Budgets tabled by 1 April fin year starts 3 months later**
 - Municipal Revenue and Expenditure Review provides key trends in basic services

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2006 Division of Revenue Bill

Section 76(4) Bill of Const obligates that DoR Bill must be tabled in NA, and go to NCOP after

- Clauses 1-50 of the Bill
- Schedules 1-7 divide revenue btw 3 spheres and within spheres
- Memo on objectives of bill
- Explanatory attachments
 - Annexure E (also part of Budget Review)
 - Appendix E1 & E2: Frameworks on all conditional grants (provincial and local)
 - Appendix E3 to E7: LG allocations by municipality for both national & municipal financial year

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DOR: Schedules

Schedules 1 to 7

- Equitable Share allocations (Schedules 1-3)
 - Schedule 1: eq share between 3 spheres
 - Schedules 2: provincial equitable share among 9 provinces
 - Schedule 3 divides local equitable share among 283 municipalities
- Conditional Grant allocations (Schedules 4-6)
 - Schedules 4 allocations to provinces/ municipalities supplementing programmes funded from 'own resources'
 - Schedule 5 are specific purpose allocations to provinces
 - Schedules 6 are specific purpose allocations to LG
 - Allocations by municipality in explanatory attachments
- Allocations-in-kind to LG (Schedule 7)
 - Water, electricity, financial management, neighbourhood development grant

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Schedule 1 of DoR Bill

- Most important schedule in DoR Bill
- Implicitly approves the level of revenue anticipated to be collected
- Part 1 indicates how to get from DoR Framework to Schedule 1
- All conditional grants are shifted from provincial and local government allocations into national equitable share (as per S214 of Const)
- Debt servicing/contingency reserve are included in national equitable share

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Budget Review: Chap 7 & Annex E

- Chapter 7 of Budget Review summarises national/provincial/local government funding
- Annexure E provides greater detail
- Five parts to Annexure E
 - Part 1: deals with the division of revenue between the 3 spheres and how it takes section 214(2)(a to j) into account
 - Part 2 Government's response to FFC proposals
 - Part 3 deals with the allocations to provinces
 - Part 4 deals with the local government allocations
 - Part 5 concludes with fiscal framework issues in prov/LG that need further work

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Appendices E1 and E2

Grant frameworks in Appendix E1 & E2

- To be gazetted within 14 days of Bill taking effect
 - Thereafter frameworks become legally binding
- Measurable outputs & conditions
- Allocation criteria
 - many use sector data, not nec certified by Stats SA (eg enrolment)
- Past performance
 - 2004/05 audit outcomes (financial)
 - 2004/05 non-financial
- Planning for 2007/08
- Responsibility of national departments
- Grant review process for health grants
- Transferring dept quarterly reports

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Appendices E3 to E8

- Local govt allocations per municipality in Appendices E3 to E5
- Total allocation per municipality in E6
- National AND municipal financial year
- E7 – detailed breakdown of the local government equitable shares per municipality
 - Formula portion
 - RSC levies
 - Councillor remuneration

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Review of Provincial and LG Fiscal Framework

- Census 2001 results released in 2003,
- General Household Surveys released annually
 - Provincial equitable share formula updated for latest information
 - School enrolment, population, medical/non-medical aid
 - New provincial boundaries (future work)
 - LG equitable share formula updated with latest information and for newly demarcated municipal boundaries
 - Municipal health services taken into account
- Shift of social grants out of provincial budgets

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Review of Provincial and LG Fiscal Framework

- Housing accreditation
 - To be speeded up
 - Need to look at allocations per municipality
- Review of some of the conditional grants continuing
- Review of LG Fiscal Framework
 - Elimination of RSC levy
 - Restructuring of electricity distribution
 - Impact of assigned functions requires more work

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Fiscal Framework

Part 1 of Annexure E



Division of revenue

Table E.4 Changes over baseline, 2006/07 – 2008/09

R million	2006/07	2007/08	2008/09
National departments	6 303	9 436	14 742
Provinces	7 791	13 352	21 806
Local government	8 292	10 549	13 887
Allocated expenditure	22 386	33 337	50 435

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Division of revenue

Table E.3 Division of revenue between spheres of government, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06 Revised	2006/07	2007/08	2008/09
	Outcome				Medium-term estimates		
National departments	129 297	148 142	168 018	196 429	214 964	233 996	254 495
Provinces	107 317	122 673	137 836	154 528	176 679	196 351	217 481
Equitable share	93 895	107 538	120 885	135 292	150 753	167 701	187 100
Conditional grants	13 422	15 135	16 951	19 237	25 926	28 649	30 382
Local government	8 102	11 581	13 837	16 859	26 532	30 503	35 575
Equitable share	4 187	6 350	7 678	9 643	18 058	20 076	22 775
Conditional grants	3 916	5 231	6 159	7 215	8 474	10 428	12 801
Non-interest allocations	244 717	282 396	319 690	367 816	418 176	460 850	507 552
Percentage increase	13,7%	15,4%	13,2%	15,1%	13,7%	10,2%	10,1%
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Contingency reserve	–	–	–	–	2 500	5 000	8 000
Main budget expenditure	291 525	328 709	368 541	418 976	472 725	519 174	571 268
Percentage increase	10,9%	12,8%	12,1%	13,7%	12,8%	9,8%	10,0%
Percentage shares							
National departments	52,8%	52,5%	52,6%	53,4%	51,4%	50,8%	50,1%
Provinces	43,9%	43,4%	43,1%	42,0%	42,3%	42,6%	42,8%
Local government	3,3%	4,1%	4,3%	4,6%	6,3%	6,6%	7,0%

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Division of revenue

Table E.5 Schedule 1 of the Division of Revenue Bill, 2006/07 – 2008/09

R million	2006/07 Column A Allocation	2007/08 Column B Forward estimates	2008/09
National ^{1, 2}	303 914	331 397	361 393
Provincial	150 753	167 701	187 100
Local	18 058	20 076	22 775
Total	472 725	519 174	571 268

1. National share includes conditional grants to provinces and local government, debt service cost and the contingency reserve.

2. The direct charges for the provincial equitable share are netted out.

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Response of National Government to FFC Proposals

Part 2 of Annexure E



Process to consider FFC proposals

FFC Submission: DoR 2006/07 (including supplementary submissions)

- Focus is on 7 issues
- Review of conditional grants
 - National tertiary services/Health professions and training
- The financing of social welfare services
- Assignment of powers and functions (for all three spheres of government)
- Institutional and funding framework for housing
- Policy, legislative and funding framework for transport provision
- Municipal health services
- Development component of the LG equitable share formula

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Process to consider FFC proposals

Response should be viewed against the review of LG and Provincial fiscal frameworks

- Budget Council considered prov proposals
- Budget Forum considered LG proposal
- All spheres deliberated on the proposals and response at Extended Cabinet

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FFC Recommendations

National Tertiary Services Grant

- CG mechanism be retained
- Government clarifies why NTSG only relates to level 3 and not level 2 hospital services
- Framework be developed for required minimum level of service for all hospital services

Government agrees that the CG mechanism be retained

NTSG funds highly specialised services (technical) that require centralised planning while L2 services SHOULD be delivered by all hospitals and have minimal spill-over

Government agrees that, albeit within clearly defined range, consideration be given to developing a framework for a required level for all hospital services

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FFC Recommendations

Health professions and training and development grant

- The CG mechanism be retained
- Its framework be tightened to ensure that it is only used for to fund accredited qualifications and training

Government agrees that the HPTDG be retained as a CG

Government recognises the need that the grant be redesigned to improve its targeting and efficacy

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FFC Recommendations

Financing of welfare services

- Specific consideration be given to allocating social welfare services funds in the provincial equitable share
- Government works faster to set norms and standards for the delivery of a defined minimum basket of social welfare services by provinces

Government agrees that the financing of social welfare services be prioritised in the PES and has made substantial allocations in that regard

Government is currently undertaking a study to clearly define a basket of social welfare services to be delivered by provinces

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FFC Recommendations

Assignment of powers and functions in the SA intergovernmental system

- The framework on the assignment of powers and functions to LG and the instruments that give effect to it be finalised
- An intergov assignment framework applicable to all three spheres of government be developed
- Any function to be assigned or delegated should be clearly defined and its funding implication assessed

Government agree with these proposal. However, not every function lends itself to tightly defined norms and standards



FFC Recommendations

Assessment of institutional and funding framework for housing delivery

- All bottlenecks to housing delivery be addressed
- Accreditation of municipalities
 - Proper support be provided; assist with administrative costs
 - Consider funding implication of policy changes
 - Address funding gaps in municipalities (with weak capacity)
- Rental housing be promoted (rental housing framework be developed)
- Linking new housing subsidies with MIG and the LES

Government agree that bottlenecks in housing delivery be addressed and further agrees with the proposed steps to speed up municipal accreditation

*Government' social housing policy in step with FFC proposals
Link between MIG, housing subsidies and LES not that simple*



FFC Recommendations

Transport funding issues

The process of classifying all roads and their assignment to the respective spheres of gov. be finalised as a matter of urgency

- Condition analysis of roads be undertaken
- Further
 - Devolution of bus/taxi subsidies to municipalities
 - Improve the efficiency of intermodal transport planning
 - Resolve outstanding matters that relate to TAs

Technical roads coordination body currently dealing with road classification and assignment process, and conditional analysis

Government supports the rest of the proposals

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FFC Recommendations

Decentralisation of health care

Environmental health care be added to the list of basic services under the LES formula

- A detailed 'environmental health care package' be developed

Government agrees that environmental health be included in the LES formula. Funding added and formula adjusted

On 'environmental health care package' government is of the view that its elements are adequately captured in the National Health Act of 2003

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FFC Recommendations

Development component of the LES formula

This component not be incorporated in the formula at this stage

Government agrees that the development component not be factored in at this stage as it does not lead to additional resources but a reallocation of allocations

Government would welcome specific proposals from the FFC on how the incorporation of the development component could be achieved

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Provincial allocations

Part 3 of Annexure E



Provincial equitable shares

Table 7.15 Provincial equitable shares, 2004/05 – 2008/09

R million	2004/05	2005/06		2006/07	2007/08	2008/09
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	19,329	22,326	22,326	24,643	27,189	30,091
Free State	7,887	8,719	8,719	9,595	10,567	11,666
Gauteng	19,847	20,860	20,860	23,362	26,072	29,190
KwaZulu-Natal	23,689	28,502	28,502	32,052	35,957	40,446
Limpopo	16,775	18,463	18,463	20,616	22,993	25,726
Mpumalanga	9,059	10,029	10,029	11,227	12,559	14,086
Northern Cape	2,874	3,142	3,142	3,452	3,790	4,174
North West	10,149	11,151	11,151	12,347	13,669	15,175
Western Cape	11,277	12,100	12,100	13,459	14,906	16,546
Total	120,885	135,292	135,292	150,753	167,701	187,100

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Table 7.16 Conditional grants to provinces, 2005/06 – 2008/09

R million	2005/06	2006/07	2007/08	2008/09
Agriculture	410	345	462	484
Agricultural disaster management grant	120	–	–	–
Comprehensive agricultural support progr	250	300	415	435
Land care programme grant: poverty relief and infrastructure development	40	45	47	49
Education	1,248	1,713	1,900	2,195
Further education and training college sector recapitalisation grant	–	470	595	795
HIV and AIDS (life skills education) grant	136	144	152	162
National school nutrition programme grant	1,112	1,098	1,153	1,238
Health	8,907	10,033	10,721	11,343
Comprehensive HIV and AIDS grant	1,150	1,567	1,646	1,735
Forensic pathology services grant	271	525	551	467
Health professions training and developm	1,520	1,520	1,596	1,676
Hospital revitalisation grant	1,256	1,440	1,707	1,983
National tertiary services grant	4,709	4,981	5,221	5,482

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Table 7.16 Conditional grants to provinces, 2005/06 – 2008/09

R million	2005/06	2006/07	2007/08	2008/09
Residential	4,868	6,350	7,938	8,721
Integrated housing and human settlement development grant	4,868	6,350	7,938	8,721
Land Affairs	8	8	-	-
Land distribution: Alexandra urban renewal project grant	8	8	-	-
National Treasury	3,731	4,118	5,324	5,697
Provincial infrastructure grant	3,731	4,118	5,324	5,697
Provincial and Local Government	41	-	-	-
Disaster relief grant	41	-	-	-
Sport and Recreation South Africa	24	119	154	205
Mass sport and recreation participation programme grant	24	119	154	205
Transport	-	3,241	2,151	1,736
Gautrain rapid rail link	-	3,241	2,151	1,736
Total	19,237	25,926	28,649	30,382

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Table 7.14 Transfers to provinces, 2006/07

R million	Equitable share	Conditional grants					Total
		Health	Provincial housing Infrastructure Grant	Education	Other ¹		
Eastern Cape	24,643	905	742	762	320	81	27,453
Free State	9,595	780	243	523	103	38	11,282
Gauteng	23,362	3,077	408	1,758	226	3,276	32,106
KwaZulu-Natal	32,052	1,601	870	1,048	362	83	36,018
Limpopo	20,616	406	729	521	267	73	22,612
Mpumalanga	11,227	300	317	421	127	42	12,435
Northern Cape	3,452	539	202	105	42	28	4,367
North West	12,347	495	354	613	135	56	13,999
Western Cape	13,459	1,930	253	599	130	36	16,407
Total	150,753	10,033	4,118	6,350	1,713	3,713	176,679

1. Includes grants in the national departments of Agriculture, Land Affairs, Sport and Recreation.

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Local Government Allocations

Part 5 of Annexure E

Table 7/18 National transfers to local government, 2002/03 – 2008/09

	2005/06 Revised estimate	2006/07 Medium-term estimates	2007/08 Medium-term estimates	2008/09 Medium-term estimates
Direct transfers to local government				
Equitable share and related	9,808	18,558	20,626	23,375
Equitable Share ¹	9,643	18,058	20,076	22,775
Water and Sanitation Operating	165	500	550	600
Infrastructure	6,302	7,225	9,129	11,801
Municipal Infrastructure Grant	5,436	6,265	7,149	8,053
Public Transport Infrastructure and Systems	242	519	624	1,790
Neighbourhood Development Partnership Grant	–	50	950	1,500
National Electrification Programme	313	391	407	458
Current transfers	749	749	749	400
Restructuring Grant	350	350	350	–
Financial Management Grant	199	199	199	200
Municipal Systems Improvement Grant	200	200	200	200
Sub total direct transfers³	16,859	26,532	30,503	35,575
Indirect transfers to local government				
Water and Sanitation Operating	904	491	490	531
National Electrification Programme	863	977	1,016	1,143
Sub total indirect transfers	1,767	1,468	1,506	1,673
Total	18,626	28,000	32,010	37,249



Local Government priorities

Government seeks to ensure that:

- Free basic services (water, sanitation, refuse, electricity and environmental health care) are provided
- A proper waste management system is in place
- The bucket system is eradicated
- The built environment develops
- Financial management and capacity of municipalities is deepened
- The delivery of municipal infrastructure contributes to job creation

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DIVISION OF REVENUE BILL, 2006



General

- Substantially the same as DoRA, 2005
- Readability improved by –
 - Rearrangement of clauses
 - Number of technical amendments

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Clause Deleted

- Social Assistance Transfers and Social Assistance Administration conditional grant
 - No longer a conditional grant
 - Agency responsible
- Duties relating to co-operative government in respect of concurrent functions
 - Better regulated through sector legislation

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New Clauses

- Gautrain Rapid Rail Link allocation
 - transfers must be made in a manner that allows the province to meet its payment obligation in terms of the public-private partnership agreement
 - The NT must direct the establishment of a dedicated banking account configuration
- Delayed implementation of changes to municipal or provincial boundaries
 - Changes in 2006 only to take effect in 2007/08 financial year
 - Necessary to allow sufficient time to adjust fiscal framework

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New Clauses

- Implementation of the Cross-boundary Municipalities Laws Repeal and Related Matters Act, 2005
 - Releasing province must continue to spend its allocations for the 2006/07 financial year within the relocated area as if that area was not reallocated to another province (the receiving province)
 - Transferring national officer, PT & receiving province must monitor compliance with above and releasing province must demonstrate compliance when requested

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New Clauses

- Implementation of the Cross-boundary Municipalities Laws Repeal and Related Matters Act, 2005 (cont.)

- Non-compliance:
 - Conditional allocations may be withheld, stopped and / or re-allocated
 - Portion of equitable share may be stopped and reallocated by NT (after complying with section 216(3) of the Constitution)
- Conditional and equitable share allocations for outer years subject to adjustments necessitated by the implementation of the Cross-boundary Municipalities Laws Repeal and Related Matters Act, 2005

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Clauses Significantly Amended

Allocations to public entities for provision of municipal service or function

- No public entity may receive funds except via the municipality responsible for that service or function, unless the NT approves otherwise in respect of municipalities it deems to have low capacity
- Funds received by Eskom from DME for the implementation of the National Electrification Programme excluded
- DME must ensure that Eskom implementation is aligned with the relevant municipality's IDP

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Clauses Significantly Amended

Re-allocation after stopping of allocation

- May be reallocated to one or more provinces or municipalities on condition that the allocation will be spent in this financial year OR the next financial year

• Other amendments ensure perfect alignment between DOR Bill and MFMA

- Definitions
- Cooperative governance
- Stopping of funds
- reporting

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