



07 April 2020

## **2020 Division of Revenue Bill Provincial Snapshot – Western Cape**

### **1. Overview of 2020 Division of Revenue Bill (DoRB)**

Slow and declining economic growth, declining tax revenues and increasing debt costs over the past few years has strained the country's public finances. The Government's past efforts to place the fiscus on a more sustainable path have been focused on cutting expenditure and raising tax revenue, however; these interventions have not stabilised the debt.<sup>1</sup>

The Government's fiscal consolidation efforts over the 2020 Medium Term Expenditure Framework (MTEF), continues to target expenditure, with the aim of reducing expenditure as a share of the Gross Domestic Product (GDP), as well as improving the composition of expenditure (i.e. reduce non-interest spending).

The 2020 Budget, therefore, proposes a net non-interest expenditure reduction of R156.1 billion over the medium term, which is largely to be derived from the proposed cut of R160.2 billion on compensation spending over the same period.<sup>2</sup> Other measures include baseline reductions of R66 billion in 2020/21, R88.1 billion in 2021/22 and R106.8 billion in 2022/23, which will be effected to Government programmes across all three spheres.<sup>3</sup>

The Budget amounts to R1.77 trillion in 2020, which is an increase of R82.6 billion or 4.9 per cent from the adjusted allocation of R1.68 trillion in 2019. The R1.77 trillion budget for 2020/21 is allocated as follows: National Government receives R1.2 trillion, Provinces receive R538.5 billion<sup>4</sup> and the Local Government receives R74.7 billion.<sup>5</sup>

The National Government allocation of R1.2 trillion constitutes the bulk of nationally raised revenue, at 65.3 per cent in 2020/21. When the Contingency Reserve; Debt Service Costs and the Provincial and Local Government Conditional Transfers are excluded, the national equitable share amounts to 49.2 per cent; Provinces receive 42.2 per cent; and the Local Government receives 8.6 per cent in 2020/21.<sup>6</sup>

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<sup>1</sup> National Treasury (2020a), p. 3.

<sup>2</sup> Ibid. (2020a), p. 47.

<sup>3</sup> Ibid. (2020a), p. 48.

<sup>4</sup> The R538.5 billion refers to the Provincial Equitable Share (PES) and does not include conditional grant transfers.

<sup>5</sup> National Treasury (2020b), p. 32.

<sup>6</sup> National Treasury (2020a), p. 66.



## 2. Provincial Transfers

Provincial transfers (i.e. both the equitable share and conditional grants) have been cut in line with the Government’s fiscal consolidation efforts. Provinces had to identify a number of cost-saving measures (without compromising services) and these include:

- Maintaining compensation limits;
- Reduced costs by merging provincial public entities, improved integrated planning to avoid the duplication of services and enhanced contract management to ensure the correct pricing of projects; and
- Identified savings of 5 to 7 per cent in their Budget for each year over the medium term.<sup>7</sup>

There are, however, limitations in the Provinces’ ability to effect cost reductions, savings and reprioritisation. Given that 80 per cent of provincial transfers are allocated through the equitable share, more needs to be done to identify new revenue sources, or alternatively assessing the effectiveness of current revenue sources for optimal revenue generation.<sup>8</sup>

In 2020/21, total transfers to Provinces amount to R649.3 billion of which the equitable share amount to R538.5 billion and conditional grants amount to R110.8 billion.<sup>9</sup> Included in the total conditional grant allocation of R106.7 billion is an unallocated amount of R433 million, which is the funding that is set aside for Provincial Disaster Relief (i.e. R138.5 million for 2020/21) and Emergency Housing (i.e. R294.9 million).<sup>10</sup> These funds are only released once a disaster has been declared.

Despite the cuts, the Provincial Equitable Share (PES) grows on average by 6.3 per cent, which is above the projected average inflation rate of 4.5 per cent over the 2020 MTEF period.

Table 1 below, shows the estimated budget allocations for the Western Cape Province over the 2020 MTEF.

**Table 1: Budget allocations over 2020 MTEF**

Province R'million	Equitable Share	Conditional Grants	Total Transfers 2020/21	Equitable Share 2021/22 est	Equitable Share 2022/23 est
Western Cape	55 208	13 191	68 399	59 276	63 194

Source: National Treasury (2020b)

<sup>7</sup> National Treasury (2020a), p. 70.

<sup>8</sup> Ibid. (2020a), p. 69.

<sup>9</sup> National Treasury (2020b), p. 74.

<sup>10</sup> Ibid. (2020b), p. 55.



The Western Cape Province receives a total of R68.4 billion in 2020/21, of which the equitable share allocation amount to R55.2 billion and conditional grant transfers amount to R13.2 billion (see the second and third column in Table 1).

The two outer years' allocations are estimates and are not guaranteed due to the changing fiscal circumstances, that could result in an increase or decrease in the final allocation.

### 3. Conditional Grant Transfers to Western Cape

The *National Tertiary Services Grant* accounts for the largest transfer to the Western Cape Province over the 2020 MTEF at R10.7 billion, followed by the *HIV, TB, Malaria and Community Outreach Grant* at R6.2 billion and the *Human Settlements Development Grant* at R5.1 billion.

Other large transfers to the Province include: the *Public Transport Operations Grant* at R3.33 billion, the *Education Infrastructure Grant* at R3.31 billion; and the *Public Roads Maintenance Grant* at R3.0 billion (see fifth column in Table 2 below).

In 2020/21, a new Health Grant will be introduced with the specific purpose of supporting Provinces to fund service costs associated with clinical training and the supervision of health service trainees on the Public Service Platform, as well as, to appoint statutory positions in the health sector during the phase-in of the National Health Insurance (NHI).<sup>11</sup>

The Western Cape receives:

- a total *Statutory Human Resources, Training and Development Grant* allocation of R881.4 million in 2020/21.<sup>12</sup>

The Grant has two components, of which:

- The Health Professions Training and Development component, funds the training of health science professionals, specialists, registrars and their supervisors; and
- The Statutory Human Resources component funds interns and community services posts, including some posts previously funded from the equitable share.<sup>13</sup>

Table 2 below shows the conditional direct transfers for 2020/21 and the indicative amounts for the two outer years of the 2020 MTEF.

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<sup>11</sup> National Treasury (2020b), p. 172.

<sup>12</sup> Ibid. (2020b), p. 47.

<sup>13</sup> Ibid. (2020b), pp. 90-91.



**Table 2: Conditional Grant Transfers over 2020 MTEF**

WC Province R'000	2020/21 Allocation	2021/22 Allocation	2022/23 Allocation	2020 MTEF total	Average Growth Rate over 2020 MTEF
Education Infrastructure Grant	1 091 162	1 082 712	1 133 077	3 306 951	1,9%
National Tertiary Services Grant	3 426 618	3 560 969	3 704 846	10 692 433	4,0%
Provincial Roads Maintenance Grant	1 067 344	947 296	992 470	3 007 110	-3,6%
Public Transport Operations Grant	1 073 596	1 132 644	1 127 813	3 334 053	2,5%
Comprehensive Agricultural Support Programme Grant	111 555	118 856	122 797	353 208	4,9%
Ilima/Letsema Projects Grant	50 464	56 440	58 111	165 015	7,3%
Land Care Programme Grant: Poverty Relief and Infrastructure Development	5 045	5 451	5 732	16 228	6,6%
HIV and AIDS (Life Skills Education) Grant	19 878	20 758	21 164	61 800	3,2%
Learners with Profound Intellectual Disabilities Grant	28 499	30 176	31 175	89 850	4,6%
Maths, Science and Technology Grant	35 479	37 474	38 651	111 604	4,4%
National School Nutrition Programme Grant	412 548	428 739	450 176	1 291 463	4,5%
HIV,TB, Malaria and Community Outreach Grant	1 867 472	2 120 970	2 232 870	6 221 312	9,3%
Health Facility Revitalisation Grant	698 793	690 199	729 795	2 118 787	2,2%
National Health Insurance Grant	19 480	20 239	20 985	60 704	3,8%
Statutory Human Resources, Training and Development Grant	881 370	912 513	946 285	2 740 168	3,6%
Human Settlements Development Grant	1 907 551	1 577 433	1 631 174	5 116 158	-7,5%
Informal Settlements Upgrading Partnership Grant for Provinces		457 429	484 638	942 067	n.a.
Title Deeds Restoration Grant	67 952			67 952	n.a.
Expanded Public Works Programme (EPWP) Integrated Grant for Provinces	25 983			25 983	n.a.
Social Sector Expanded Public Works Programme (EPWP) Incentive Grant for Provinces	42 950			42 950	n.a.
Early Childhood Development Grant	87 152	91 285	101 631	280 068	8,0%
Community Library Services Grant	186 126	198 666	208 973	593 765	6,0%
Mass Participation and Sport Development Grant	83 491	85 711	87 517	256 719	2,4%

Source: National Treasury (2020b)

Over the 2020 MTEF, several grant allocations supporting key national priorities such as – education infrastructure, health and public transport grow well below the projected average inflation rate of 4.5 per cent for the period. While, the growth rate of two grant allocations, decline over the 2020 MTEF period. These are:

- The *Human Settlements Development Grant* allocation declines at an average rate of 7.5 per cent from R1.9 billion in 2020/21 to R1.6 billion in 2022/23; and
- The *Provincial Roads Maintenance Grant* allocation declines at an average rate of 3.6 per cent from R1.1 billion in 2020/21 to R992.5 million in 2022/2.

The decline in the growth of the Grant allocations reported above is of concern, as it may lead to the under-funding of these key national priorities within provincial budgets and ultimately the under-servicing of communities.



#### Note:

- The allocations for the *Expanded Public Works Programme (EPWP): Integrated Grant for Provinces* and the *Social Sector EPWP Programme: Incentive Grant for Provinces* are determined upfront, based on the performance of provincial departments in meeting targets in the preceding financial year. Hence, the allocations for these two grants remain unallocated in the two outer years of the 2020 MTEF period. The Province receives R26 million and R43 million in 2020/21 for these two Grants, respectively.
- The *Education Infrastructure Grant* has an incentive component, which requires provinces to score a minimum of 60 per cent to qualify for the incentive allocation. The Western Cape Province scored 91 per cent in 2019/20, and therefore qualifies for the incentive allocation of R73.4 million and receives a basic component of R1 billion in 2020/21 (National Treasury, 2020b, p. 88).
- Similarly, the *Health Facility Revitalisation Grant* allocation also includes a performance – based incentive with a minimum qualification score of 60 per cent. The Western Cape Province reported a final score of 86 per cent by the end of the 2019/20 financial year, and therefore qualifies for the R58.8 million incentive component and receives a basic component of R640 million in 2020/21 (National Treasury, 2020b, p. 90).

### 3.1 Major changes to the Provincial Conditional Grant Framework

The changes to the Conditional Grant Framework over the 2020 MTEF ***that are applicable to the Western Cape Province are as follows:***

#### a) Additions to grant funds:

- R1.4 billion was added to the *Early Childhood Development Grant* over the 2020 medium term. The additional allocation has been used to increase the subsidy per child from R15 per day to R17 per day in 2020/21, which will increase to R18.57 per day by 2022/23.<sup>14</sup>

#### b) Scope of grant expanded:

- Two new components for mental health and oncology are added to the *HIV, TB, Malaria and Community Outreach Grant* in 2020/21. In addition, a separate component will be created within this Grant to continue funding the Human

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<sup>14</sup> National Treasury (2020b), p. 94.



Papillomavirus vaccinations, as the *Human Papillomavirus Vaccine Grant* has been merged with this Grant as of the 2020 MTEF.<sup>15</sup>

- The non-personal services component of the *National Health Insurance Indirect Grant* will pilot new initiatives in 2020/21, aimed at improving the quality of health in preparation for accreditation to deliver National Health Insurance services.<sup>16</sup>

#### **c) Reprioritisation of grant funding:**

- R255.1 million has been reprioritised from the *Comprehensive Agricultural Support Programme Grant* to the Department of Agriculture, Land Reform and Rural Development over the 2020 medium term, to fund improved laboratory capacity, border control and inspections.<sup>17</sup>
- R800 million has been reprioritised from the HIV and AIDS component of the *HIV, TB, Malaria and Community Outreach Grant* to the Community Outreach Services component of the Grant in 2020/21, to cover a shortfall in the salaries of Community Health Workers in the 2020/21 financial year.<sup>18</sup>
- R90 million has been reprioritised within the *Mass Participation and Sport Development Grant* over the 2020 MTEF, to support the Netball World Cup that will be hosted in the Western Cape in 2023.<sup>19</sup>
- R500 million has been reprioritised within the *Provincial Roads Maintenance Grant* in 2020/21, to fund disaster recovery projects in the 2020/21 financial year.<sup>20</sup>

#### **d) Reductions to baselines:**

As part of continued efforts to alleviate fiscal constraints and maintain the expenditure ceiling, reductions have been made to the baselines of Provincial Grants. In order to manage the effects of Grant reductions, the following was taken into account:<sup>21</sup>

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<sup>15</sup> National Treasury (2020b), p. 91.

<sup>16</sup> Ibid. (2020b), p. 91.

<sup>17</sup> Ibid. (2020b), p. 88.

<sup>18</sup> Ibid. (2020b), p. 91.

<sup>19</sup> Ibid. (2020b), p. 95.

<sup>20</sup> Ibid. (2020b), p. 95.

<sup>21</sup> National Treasury (2020a), p. 68.



- Past spending and performance;
- Does the Grant fund salaries, medicines and food; and
- Has there been significant growth in the allocations in recent years.

Grants that persistently under-performed, received larger cuts to their baselines.<sup>22</sup>

Fiscal consolidation reductions have been effected to the baselines of following Grants over the 2020 medium term, of which:<sup>23</sup>

- The baselines of the ***Agricultural Grants***<sup>24</sup> have been reduced by 5 per cent, 6 per cent and 7 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R716 million over the medium term.<sup>25</sup>
- The *Education Infrastructure Grant's* baseline has been reduced by 4 per cent, 5 per cent and 5.9 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R1.9 billion over the medium term.<sup>26</sup>
- The *National School Nutrition Programme Grant's* baseline has been reduced by 0.4 per cent, 0.5 per cent and 0.6 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R123 million over the medium term.<sup>27</sup>
- The baseline of the *Maths, Science and Technology Grant* has been reduced by 3 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R39 million over the medium term.<sup>28</sup>
- The *HIV and AIDS (Life Skills and Education) Grant's* baseline has been reduced by 8.8 per cent, 5 per cent and 5.9 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R85 million over the medium term.<sup>29</sup>

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<sup>22</sup> National Treasury (2020a), p. 68.

<sup>23</sup> National Treasury (2020b), pp. 88-95.

<sup>24</sup> These include the Comprehensive Agricultural Support Programme Grant, the Land Care Programme Grant and the Ilima /Letsema Projects Grant.

<sup>25</sup> National Treasury (2020b), p. 76.

<sup>26</sup> Ibid. (2020b), p. 76.

<sup>27</sup> Ibid. (2020b), p. 76.

<sup>28</sup> Ibid. (2020b), p. 76.

<sup>29</sup> Ibid. (2020b), p. 76.



- The baseline of the *National Tertiary Services Grant* has been reduced by 1 per cent in 2021/22 and 2022/23, respectively. There are no reductions to the baseline in 2020/21 financial year. The reductions in total amount to R304 million over the medium term.<sup>30</sup>
- The baseline of the *Health Facility Revitalisation Grant* has been reduced by 3 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R612 million over the medium term.<sup>31</sup>
- The baseline of the *HIV, TB, Malaria and Community Outreach Grant* has been reduced by 1 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R812 million over the medium term.<sup>32</sup>
- The *National Health Insurance Indirect Grant's* baseline has been reduced by 9.8 per cent, 4 per cent and 4.7 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R611 million over the medium term.<sup>33</sup>
- The *Human Settlements Development Grant's* baseline has been reduced by 13.1 per cent, 12.9 per cent and 14.8 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R6.7 billion over the medium term.<sup>34</sup>
- The baseline of the *Expanded Public Works Programme (EPWP) Integrated Grant for Provinces* and the *Social Sector EPWP Grant for Provinces* has been reduced by 9 per cent, 10 per cent and 10.1 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R142 million in respect of the EPWP Integrated Grant for Provinces and R139 million in respect of the Social Sector EPWP Grant for Provinces, over the medium term.<sup>35</sup>
- The *Community Library Services Grant's* baseline has been reduced by 6.6 per cent, 5.7 per cent and 4.7 per cent, respectively for each year of the 2020 MTEF. The reductions in total amount to R283 million over the medium term.<sup>36</sup>
- The *Mass Participation and Sport Development Grant's* baseline has been reduced by 8.8 per cent, 10 per cent and 10.5 per cent, respectively for each year of the

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<sup>30</sup> National Treasury (2020b), p. 76.

<sup>31</sup> Ibid. (2020b), p. 76.

<sup>32</sup> Ibid. (2020b), p. 76.

<sup>33</sup> Ibid. (2020b), p. 76.

<sup>34</sup> Ibid. (2020b), p. 76.

<sup>35</sup> Ibid. (2020b), p. 76.

<sup>36</sup> Ibid. (2020b), p. 76.





2020 MTEF. The reductions in total amount to R201 million over the medium term.<sup>37</sup>

- The baseline of the *Public Transport Operations Grant* has been reduced by 4 per cent in 2022/23. The reductions in total amount to R295 million over the medium term.<sup>38</sup>
- The baseline of the *Provincial Roads Maintenance Grant* has been reduced by 8.3 per cent in 2021/22 and 9.1 per cent in 2022/23. There are no reductions to the baseline in 2020/21 financial year. The reductions in total amount to R2.8 billion over the medium term.<sup>39</sup>

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## References:

National Treasury (2020a), *Budget Review 2020*, Parliament of South Africa. Cape Town

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National Treasury (2019c), *Division of Revenue Amendment Bill [B15 - 2019]*, Parliament of South Africa. Cape Town.

National Treasury (2019d), *Medium Term Budget Policy Statement (MTBPS) 2019*, Parliament of South Africa. Cape Town

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<sup>37</sup> National Treasury (2020b), p. 76.

<sup>38</sup> Ibid. (2020b), p. 76.

<sup>39</sup> Ibid. (2020b), p. 76.