

COVID-19 RESPONSE: DIVISION OF REVENUE AMENDMENT BILL, 2020

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national treasury

Department:
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STRUCTURE OF THE PRESENTATION

This presentation covers:

1. Timeline of Division of Revenue responses to COVID-19
2. Impact of COVID-19 on provinces and municipalities and the Division of Revenue response
3. Changes to provincial conditional grants
4. Changes to local government conditional grants
5. Additions to the Local government equitable share

TIMELINE OF THE DIVISION OF REVENUE-RELATED RESPONSE TO COVID-19

- Response enabled through **2019 Division of Revenue Act**:
 - Release of funds from Provincial and Municipal Disaster Relief Grants in March and May 2020
 - Reallocations approved in terms of s20(6) of **R4 billion** in uncommitted grant funds for disaster alleviation in 2019/20 municipal financial year
- **2020 Division of Revenue Act** was enacted on 23 June 2020
 - Gazetted frameworks include additional conditions to allow for COVID-19 spending from existing grant baselines (Gazette published on 3 July)
 - Enables the reprioritised use of about **R7.4 billion** in grant funds for provinces and **R9 billion** in grant funds for local government
- The **Special Adjustment Budget** tabled on 24 June 2020 includes a **Division of Revenue Amendment Bill** that includes:
 - Additions to new **COVID-19 component** of the HIV, TB, Malaria and Community Outreach Grant
 - Additions of **R11 billion** to the local government equitable share
 - Downward adjustments to some conditional grants (to fund other COVID-response activities)

HOW THE COVID-19 RESPONSE IS BEING FUNDED

- The increased government spending to respond to COVID-19 is funded in part by increasing the deficit and in part by reprioritising resources
- The President announced that R130 billion would be reprioritised
 - R30 billion of this was to come from provinces (excluding conditional grants)
 - In the adjustment budget, R100.9 billion in reprioritisations were effected
- Reprioritised funds come from:
 - Savings on activities (travel, venue hire, catering) that are no longer possible
 - Unspent funds due to lockdown regulations (e.g. most infrastructure grants could not be spent under level 4 and level 5 regulations)
 - Identifying possible under-spending (provinces underspent their grants by R3.4 billion in 2019/20, and we identified potential underspending of R5 billion in local government that could be reallocated in 2019/20)
 - Reprioritisations of this scale will however require the implementation of some projects to be delayed

IMPACT OF THE COVID-19 PANDEMIC ON PROVINCES

- Provincial governments are responsible for the key services at the frontline of the pandemic response including:
 - Public health system
 - Schools
 - Social welfare services
- Provinces will fund their COVID-19 responses primarily through reprioritisation
- Provinces have committed to reprioritise at least R20 billion
- These shifts are not shown in the Bill as they are changes within provincial budgets (there are no changes to the provincial equitable share in the Bill)

Reprioritisations for COVID-19 expected within provincial budgets

R thousand	Equitable share	Funds reprioritised to:		Total
		Health	Other sectors	
Eastern Cape	13.3%	1 988 374	662 791	2 651 165
Free State	5.6%	835 589	278 530	1 114 119
Gauteng	20.8%	3 126 485	1 042 162	4 168 647
KwaZulu-Natal	20.7%	3 105 174	1 035 058	4 140 231
Limpopo	11.6%	1 735 434	578 478	2 313 913
Mpumalanga	8.2%	1 228 288	409 429	1 637 718
Northern Cape	2.6%	396 847	132 282	529 130
North West	7.0%	1 045 383	348 461	1 393 844
Western Cape	10.3%	1 538 426	512 809	2 051 234
Total	100.0%	15 000 000	5 000 000	20 000 000

IMPACT OF THE COVID-19 PANDEMIC ON LOCAL GOVERNMENT

Revenue pressures

- Full revenue impact is still uncertain, but metros reported an aggregate **30% drop in revenue** in April 2020
- Several municipalities saw **revenue drop by 40% to 60%** in April
- Many municipalities were already in financial distress (and others at risk) before the pandemic

Spending pressures

- Local government spending pressures as a result of the pandemic include:
 - Impact of increased indigence due to economic downturn
 - Provision of sanitisation of public transport facilities and vehicles in order to allow the economy to reopen
 - Provision of water, sanitation and waste services at higher frequency in informal settlements and poorly served rural communities in order to enable stay-at-home policies to be implemented
 - Provision for temporary shelter for the homeless

DIVISION OF REVENUE RESPONSE

The challenge for the Division of Revenue

- COVID-19 pandemic places large additional **spending pressures** on provinces and municipalities at the same time that their **revenues are declining**

Approach to response

- Focus is on **reprioritising within** each sphere (each province and municipality will have to adjust their own budgets)
 - LG budgets for 2020/21 were finalised during the pandemic, but will be adjusted to take account of national adjustments and further reprioritisations as the need arises
- **Equitable shares should be protected** to provide a level of budget stability and the LG equitable share increased to compensate for lost revenue and support COVID-related spending
- Conditional **grant funds will be repurposed** to allow funds to be spent on COVID-response
 - Parliament has already approved changes to several grant frameworks to allow this repurposing of grant allocations (changed grant frameworks have been gazetted)
 - Billions in reallocations towards COVID-response have been approved in last months of the 2019/20 municipal financial year.
- **Downward adjustments to some conditional grants** will contribute to funding for the nation-wide response

WHAT THE DIVISION OF REVENUE AMENDMENT BILL IS PROPOSING TO AMEND

Division of Revenue Bill tabled on Budget Day
contains all of this
(plus Explanatory Memorandum)

Division of Revenue Act

[Act 4 of 2020]

Act passed by Parliament and signed by the President in June 2020, contains:

- Clauses of the Act set requirements for transfer of funds, reporting on funds, conditions that may be set for grants and enforcement mechanisms
- Schedules to the Act contain equitable share and grant allocations

Government Gazette

No. 43495
3 July 2020

202 page gazette signed by the Minister of Finance contains:

- Grant frameworks setting out conditions and responsibilities attached to each conditional grant
- Allocations per individual municipality
- Supplementary detail for allocations (e.g. split per grant component)

Division of Revenue Amendment Bill

[B 9-2020]

Bill tabled on 24 June 2020 contains:

- Relatively small in-year adjustments to allocations, consistent with limitations in S30 of the PFMA to respond to COVID-19
- Repurposing of allocations within grants to respond to COVID-19

Section 30(2) of the PFMA says that a national adjustments budget may only provide for:

- adjustments required due to significant and **unforeseeable economic and financial events** affecting the fiscal targets set by the annual budget;
- unforeseeable and unavoidable expenditure** recommended by the national executive or any committee of Cabinet members to whom this task has been assigned;
- any expenditure in terms of section 16;
- money to be appropriated for **expenditure already announced** by the Minister during the tabling of the annual budget;
- the **shifting of funds between and within votes** or to follow the transfer of functions in terms of section 42;
- the utilisation of **savings** under a main division of a vote for the defrayment of excess expenditure under another main division of the same vote in terms of section 43; and
- the **roll-over of unspent funds** from the preceding financial year.

Another DoRAB will be tabled around October with the MTBPS to deal with other aspects of S30 that were not dealt with in this Special Adjustment Budget

CHANGES IN THE CLAUSES AND SCHEDULES

- The main purpose of the DoRAB is to amend “Column A” of the DoRA schedules which shows the allocation for the current year
- The new “Column A” created by the DoRAB shows the original allocation, the adjustment and the new allocation so as to maximise transparency in the adjustment process
- “Column A” is amended for schedules 1, 3, 4 (Parts A & B), 5 (Parts A & B), 6 (Parts A & B), and 7 (Part A & B)
- The 2020 DoRAB clauses also allow for the creation of additional payment dates for the local government equitable share (currently only 3 transfers are provided for)

Schedule 1 from 2020 DoRA

Spheres of Government	Column A	Column B	
	2020/21	Forward Estimates	
		2021/22	2022/23
	R'000	R'000	R'000
National ^{1,2}	1 152 839 556	1 195 617 107	1 245 458 677
Provincial	538 471 528	573 989 526	607 553 532
Local	74 683 326	81 061 819	87 212 717
TOTAL	1 765 994 410	1 850 668 452	1 940 224 926

Schedule1 from 2020 DoRAB

Spheres of Government	Column A		
	2020/21 Main Allocation	Adjustment	2020/21 Adjusted Allocation
	R'000	R'000	R'000
National ^{1,2}	1 152 839 556	32 180 670	1 185 020 226
Provincial	538 471 528	-	538 471 528
Local	74 683 326	11 000 000	85 683 326
TOTAL	1 765 994 410	43 180 670	1 809 175 080

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CONDITIONAL GRANT ADJUSTMENTS AND REALLOCATIONS

- The Supplementary Adjustment Budget includes downward adjustments to planned spending in order to fund the COVID-19 response
- Provincial grants are adjusted down by R7.2 billion and local government conditional grants by R3.6 billion
 - Some grants funds would not have been spent as a result of the lockdown restrictions
 - Other downward adjustments will result in programmes being delayed or scaled back
- A larger amount (R16 billion) has been **reprioritised within the grants** to be used as part of the COVID-19 response
 - Gazetted grant rules and revised business plans will enable spending on sanitisation, urgent water supply, catch-up activities in schools, hospital refurbishment and quarantine sites

CHANGES TO HEALTH GRANTS

In addition to the reprioritisations in the provincial equitable share (including R15 billion for health departments and R1 billion for facilities provided by public works departments), the health sector also benefits from changes to conditional grants:

Additional funds

- R2.8 billion has been added to COVID-19 component of HIV, TB, malaria and community outreach grant which had an initial gazetted allocation of R605 million bringing the total for this component to R3.4 billion
 - This component funds spending for PPE and ventilators, and hiring of additional staff, including the Cuban medical personal, to respond to the pandemic

Reprioritised funds

- Funds within community outreach services component of the HIV, TB, malaria and community outreach grant for will be used for screening and contact tracing for COVID-19. About 10 000 community healthcare workers have already been trained to do this job
- R1.1 billion within health facilities revitalisation grant to provide additional capacity through upgrade and refurbishing health facilities
- R298 million within national tertiary services grant to strengthen intensive-care unit capacity

REPRIORITISATION WITHIN EDUCATION GRANTS

To support sanitisation and sanitation

- R600 million has been reprioritised from direct education infrastructure grant to an indirect school infrastructure backlogs grant to provide potable water and safe sanitation for all schools that lack such access
- R4.4 billion is reprioritised within education infrastructure grant for
 - trucking of water to refill water tanks at schools
 - purchase of sanitization material and equipment
 - fund salaries at EPWP rate for temporary (2020/21 only) assistants to screen learners, clean and sanitise school facilities, if required
- R50 million within national school nutrition programme grant for additional sanitization in food preparation and distribution areas and provision of PPE for food handlers (this grant also allows for feeding outside of schools if schools are closed due to a declared state of disaster)
- R20 million from learners with profound intellectual disabilities grant to provide PPE to support provision of education to children with severe to profound intellectual disabilities

To support catch-up activities

- R30 million from maths, science and technology grant
- R40 million from HIV and AIDS (life skills education) grant to provide education measures to respond to the pandemic

CHANGES TO OTHER PROVINCIAL GRANTS

- R89 million has been reprioritised within early childhood development grant to prepare ECD sites for reopening
- R10 million has been reprioritized within community library services grant to sanitise libraries, provide hand sanitizer for library users and issue PPE for staff
- R337 million has been reprioritised within public transport operations grant to sanitise buses and public transport facilities
- R58 million within mass participation and sport development grant to compensate the sport sector for loss of earnings due to cancelled events
- R378 million has been added to provincial emergency housing grant (shifted from other human settlements grants) to swiftly provide emergency housing to allow people to socially distance or self-isolate where required

SUMMARY OF CHANGES TO PROVINCIAL ALLOCATIONS (1 OF 2)

	Budget 2020	Revision	Adjusted allocation	Amount repurposed within
R million				
Equitable share	538 472	–	538 472	20 000
Direct conditional grants	110 785	-3 961	106 823	7 379
Agriculture, Land Reform and Rural Development	2 153	-438	1 716	–
Comprehensive agricultural support programme	1 522	-317	1 205	–
Ilima/Letsema projects	549	-121	428	–
Land care programme: poverty relief and infrastructure development	82	–	82	–
Basic Education	19 564	-2 349	17 216	4 540
Education infrastructure	11 008	-2 221	8 787	4 400
HIV and AIDS (life skills education)	247	-60	187	40
Learners with profound intellectual disabilities	243	–	243	20
Maths, science and technology	401	-68	333	30
National school nutrition programme	7 666	–	7 666	50
Cooperative Governance	138	–	138	–
Provincial disaster relief	138	–	138	–
Health	49 267	2 846	52 113	1 991
HIV, TB, malaria and community outreach	24 387	2 846	27 233	605
Health facility revitalisation	6 368	–	6 368	1 066
National tertiary services	14 069	–	14 069	298
National health insurance grant: health professionals	289	–	289	23
Statutory human resource, training and development	4 155	–	4 155	–
Human Settlements	17 493	-1 728	15 765	378
Human settlements development	16 621	-1 728	14 892	–
Title deeds restoration	578	-378	200	–
Provincial emergency housing	295	378	673	378

SUMMARY OF CHANGES TO PROVINCIAL ALLOCATIONS (2 OF 2)

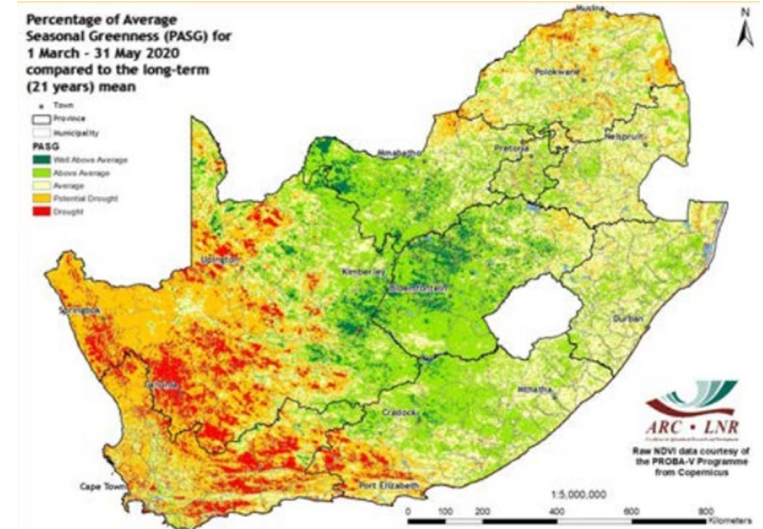
R million	Budget 2020	Revision	Adjusted allocation	Amount repurposed within
Public Works and Infrastructure	834	–	834	–
Expanded public works programme integrated grant for provinces	421	–	421	–
Social sector expanded public works programme incentive for provinces	414	–	414	–
Social Development	915	–	915	65
Early childhood development	915	–	915	65
Sports, Arts and Culture	2 076	-536	1 539	68
Community library services	1 479	-312	1 167	10
Mass participation and sport development	597	-224	373	58
Transport	18 343	-1 756	16 587	337
Provincial roads maintenance	11 593	-1 756	9 837	–
Public transport operations	6 750	–	6 750	337
Indirect conditional grants	4 060	202	4 262	200
Agriculture, Land Reform and Rural Development	36	–	36	–
Ilima/Letsema indirect	36	–	36	–
Basic Education	1 736	540	2 276	–
School infrastructure backlogs	1 736	540	2 276	–
Health	2 288	-338	1 949	200
National health insurance indirect	2 288	-338	1 949	200

DROUGHT RELIEF

(RELEASED IN TERMS OF 2020 DORA, NOT PART OF DORAB)

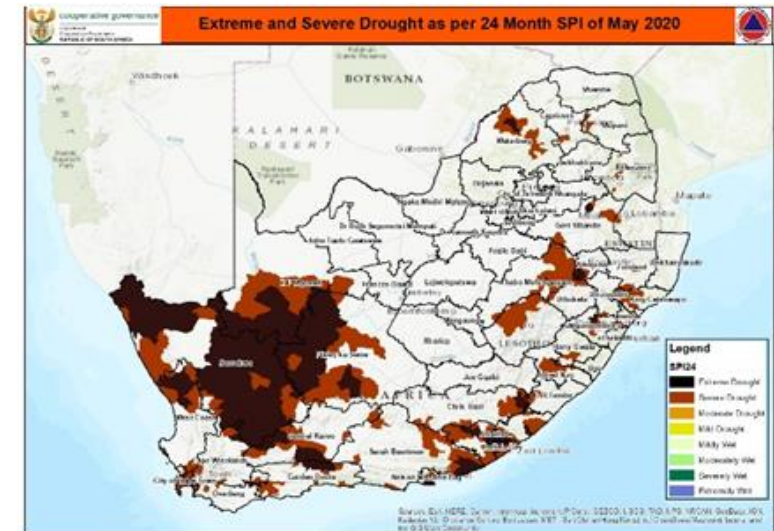
- Release of **R138.5m** from the Provincial Disaster Relief Grant for drought relief has been approved
- The applications were coordinated through the agriculture sector (2 provinces did not apply for relief) and allocations reflect the severity of drought in different provinces
- The Department of Water and Sanitation has also allocated **R562m** within their grants for drought related projects in 2020/21

Vegetation condition index March – May 2020



Provincial Disaster Relief Grant allocations, 2020/21

R'000	2020/21 allocations
Eastern Cape	35 000
Free State	-
Gauteng	-
KwaZulu-Natal	4 000
Limpopo	18 640
Mpumalanga	12 160
Northern Cape	35 689
North West	8 000
Western Cape	25 000
Total	138 489



R20 BILLION PACKAGE FOR LOCAL GOVERNMENT

Allocation of the R20 billion package for local government

Spending priorities (per the President's speech)	Funding modality	Source of funding	Amount
<ul style="list-style-type: none"> Increased operational expenses (at a time when revenues are declining) Food and shelter for the homeless 	Addition to the LG Equitable Share: Add to basic services component to compensate for the higher numbers of indigent households. Add to community services component for other services such as cemeteries and crematoria and PPE for workers	Additional funds	R11 billion
<ul style="list-style-type: none"> Water and sanitation infrastructure 	Urban Settlements Development Grant, Integrated Urban Development Grant, Municipal Infrastructure Grant (MIG), Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant	Reprioritise within these grants	R6.6 billion
<ul style="list-style-type: none"> Sanitisation for public transport 	Public Transport Network Grant and MIG for provision of extra hand washing facilities, hand sanitizer and physical distance marking through	Reprioritise within these grants	R2.4 billion

REPRIORITISATION WITHIN LOCAL GOVERNMENT GRANTS

To provide for sanitisation of transport facilities

- R1.1 billion within Public Transport Network Grant
- R1.4 billion within the Municipal Infrastructure Grant

To provide for water and sanitation (and repairs to municipal-owned quarantine facilities)

- R3 billion within Municipal Infrastructure Grant
- R190 million within Integrated Urban Development Grant
- R2.3 billion within Urban Settlement Development Grant

To provide for purchase and installation of water tanks and water trucking for three months, and implementation of source development or bulk linkage projects to replace need for water trucking

- R401 million within direct Regional Bulk Infrastructure Grant
- R689 million within the direct Water Services Infrastructure Grant
- R409 million within indirect Regional Bulk Infrastructure Grant

LOCAL GOVERNMENT EQUITABLE SHARE

- Additions to the local government equitable share provide relief to stretched municipal finances
- Each municipality will determine how best to use the funds to respond to local pressures
 - Monitoring of funds through the municipal Standard Chart of Accounts municipalities must record spending against COVID-19 project code
- Funds added through 2 components of existing formula:
 - Basic services component (R7.5 billion), sufficient to increase FBS to further 1.4 million households
 - Community services component (R3.5 billion), subject to revenue adjustment factor so it assists poorer municipalities more. Reaches municipalities responsible for environmental health, cemeteries and crematoria
- Further funding can be freed up within municipal budgets if SALGA can get an exemption from implementing the 2020/21 cost of living adjustment of 6.25%. NT has written to SALGA to formally propose this.

LGES INCREASE PER MUNICIPAL TYPE

- Striking a balance between COVID hit areas (mostly urban) with poor and rural municipalities
- Number of poor HHs increased by 13.9% (BS)
- CS increased by 41.5% and subjected to Revenue Adjustment Factor

Municipal type	Allocation R'000	Percentage increase
Metros	2 974 834	27%
Secondary cities	1 379 817	13%
Large towns	783 478	7%
Small towns	1 590 041	14%
Mostly rural municipalities	2 752 098	25%
Districts without w&s func	118 459	1%
Districts with w&s func	1 401 279	13%

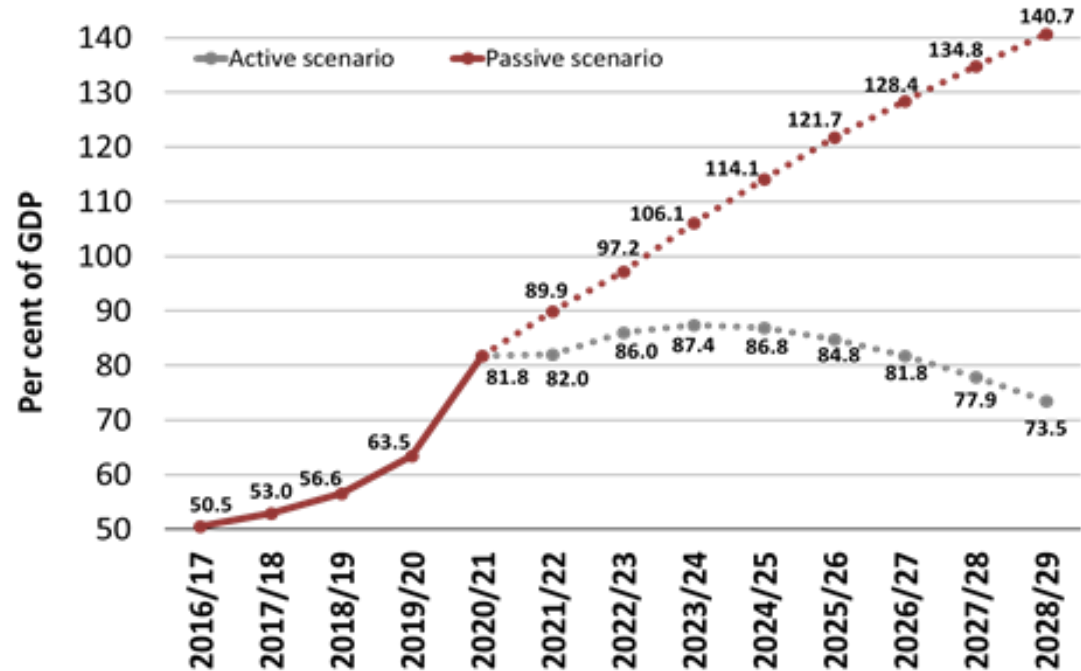
SUMMARY OF CHANGES TO LOCAL GOVERNMENT ALLOCATIONS

	Budget 2020	Revision	Adjusted allocation	Amount repurposed within
R million				
Equitable share	74 683	11 000	85 683	–
Direct conditional grants	43 819	-3 599	40 219	9 034
Municipal infrastructure	14 671	–	14 671	4 401
Integrated urban development	948	–	948	190
Urban settlements development	11 282	-1 100	10 182	2 257
Integrated city development	317	–	317	–
Public transport network	6 446	-1 902	4 544	1 096
Neighbourhood development partnership	559	-68	492	–
Integrated national electrification programme	1 859	-500	1 359	–
Rural roads asset management systems	108	–	108	–
Regional bulk infrastructure	2 006	–	2 006	401
Water services infrastructure	3 445	–	3 445	689
Municipal disaster relief	354	–	354	–
Energy efficiency and demand-side management	218	-22	196	–
Municipal emergency housing	159	–	159	–
Infrastructure skills development	153	-8	146	–
Local government financial management	545	–	545	–
Expanded public works programme	748	–	748	–
integrated grant for municipalities				
Indirect conditional grants	7 628	-1 008	6 620	409
Integrated national electrification programme	3 001	-1 000	2 001	–
Neighbourhood development partnership	63	–	63	–
Water services infrastructure	579	–	579	–
Regional bulk infrastructure	3 857	–	3 857	409
Municipal systems improvement	128	-8	120	–

IMPLICATIONS FOR FUTURE BUDGETS

- The Division of Revenue Amendment Bill only makes changes to 2020/21 allocations
- If spending plans remain unchanged (passive scenario) we will see a sovereign debt crisis
- Cabinet has chosen the active scenario to stabilising debt below 90% of GDP. This will require a major change in planned spending
- Changes to MTEF allocations will be announced in the MTBPS in October
- National Treasury intends to re-assess spending areas in a “zero-based” budgeting approach
- NT and PTs intend to use spending reviews to assess key service delivery programmes in the next budget process

Debt outlook scenarios



Thank You

ANNEXURE: CHANGES TO THE DIVISION OF REVENUE FOR 2020/21

R billion	2019/20 Revised	Budget 2020	2020/21 Revised	% change
Division of available funds				
National departments¹	749.4	757.7	790.3	4.3%
Provinces	613.1	649.3	645.3	-0.6%
Equitable share	505.6	538.5	538.5	–
Conditional grants	107.6	110.8	106.8	-3.6%
Local government	123.3	132.5	139.9	5.6%
Equitable share	65.6	74.7	85.7	14.7%
Conditional grants	44.5	43.8	40.2	-8.2%
General fuel levy sharing with metros	13.2	14.0	14.0	–
Provisional allocation not assigned to votes ²	–	-7.8	-7.8	–
Contingency reserve	–	5.0	5.0	–
Non-interest expenditure	1 485.8	1 536.7	1 572.7	2.3%
Debt-service costs	204.8	229.3	236.4	3.1%
Main budget expenditure	1 690.6	1 766.0	1 809.2	2.4%
<i>Percentage shares</i>				
<i>National departments</i>	50.4%	49.2%	50.1%	
<i>Provinces</i>	41.3%	42.2%	41.0%	
<i>Local government</i>	8.3%	8.6%	8.9%	

1. Includes provisional allocation for the COVID-19 relief package

2. Includes proposed compensation reductions, support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations