

2021 Division of Revenue Bill

Standing Committee on Appropriations

10 March 2021



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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



Outline

- Overview of the Division of Revenue
- Improving Value for Money
- Provincial allocations
- Local Government allocations
- Changes to clauses of the Bill
- Responses to Financial and Fiscal Commission's recommendations
- Responses to Parliamentary recommendations on the 2020 DoR2AB

2021 MTEF Division of Revenue

Division of nationally raised revenue

	2021/22	2022/23	2023/24	Average annual MTEF
	Medium-term estimates			
R billion				
Division of available funds				
National departments	763,3	736,3	739,0	-2,8%
<i>of which:</i>				
<i>Indirect transfers to provinces</i>	4,4	4,9	4,9	5,5%
<i>Indirect transfers to local government</i>	7,1	8,2	8,5	7,3%
Provinces	639,5	643,3	646,8	1,5%
Equitable share	523,7	524,1	525,3	0,8%
Conditional grants	115,8	119,3	121,5	4,6%
Local government	138,1	146,1	148,4	5,2%
Equitable share	78,0	83,1	83,6	4,4%
Conditional grants	45,5	47,7	49,4	7,3%
General fuel levy sharing with metros	14,6	15,3	15,4	3,2%
Provisional allocation not assigned to votes	11,6	32,1	33,2	
Non-interest allocations	1 552,5	1 557,8	1 567,5	-0,1%
<i>Percentage increase</i>	-1,2%	0,3%	0,6%	
Debt-service costs	269,7	308,0	338,6	13,3%
Contingency reserve	12,0	5,0	5,0	
Main budget expenditure	1 834,3	1 870,8	1 911,0	1,9%
<i>Percentage increase</i>	1,7%	2,0%	2,1%	
<i>Percentage shares</i>				
<i>National departments</i>	49,5%	48,3%	48,2%	
<i>Provinces</i>	41,5%	42,2%	42,2%	
<i>Local government</i>	9,0%	9,6%	9,7%	

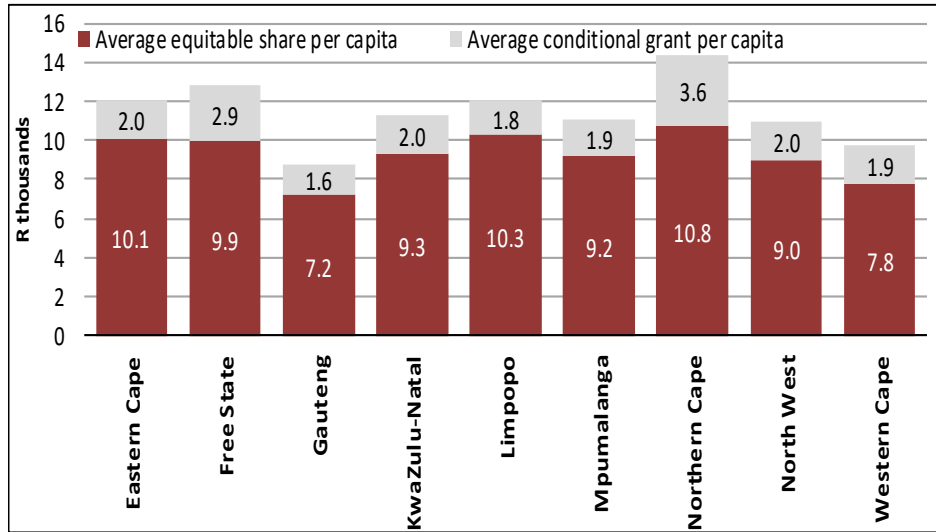
- Large reductions are implemented to national and provinces as a result of the more than R300 billion reduction in the wage bill from 2020/21 to 2023/24
- PES reduction amounts to R205.9 billion over the 2021 MTEF
- About 85% of PES reductions for provinces are for CoE – no salary increases across the board government employees and political office bearers
- LGES reduction amounts to R14.7 billion over the 2021 MTEF
- Criteria used for effecting reductions:
 - The infrastructure spending is protected from the reductions except where there is evidence of perpetual underspending
 - Reductions took into account service delivery impact (eg school nutrition programme)
 - Due consideration was given to government's response to COVID-19 and expenditure on COVID was cushioned

The base for the growth rates of the equitable shares and conditional grants to provinces exclude funds added to respond to COVID-19 in 2020/21

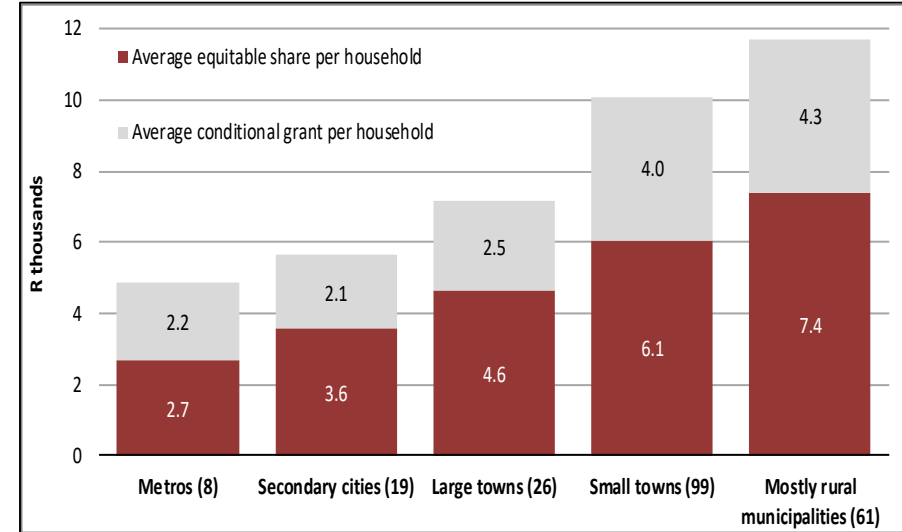
Source: National Treasury

Redistributive nature of DoR

Provincial transfers per capita, 2021/22



Local government transfers per household, 2021/22



- Though the tax base is concentrated in urban areas, rural areas receive more per capita/ per household through Division of revenue
 - Rural municipalities are allocated almost three times more per household than metros in equitable share and about twice in conditional grants
 - Total allocation of R11 700 per H/H for rural municipalities and R4 900 per H/H for metros
 - More rural provinces receive higher allocation per capita than urban provinces

Emerging trends in salaries across the three spheres



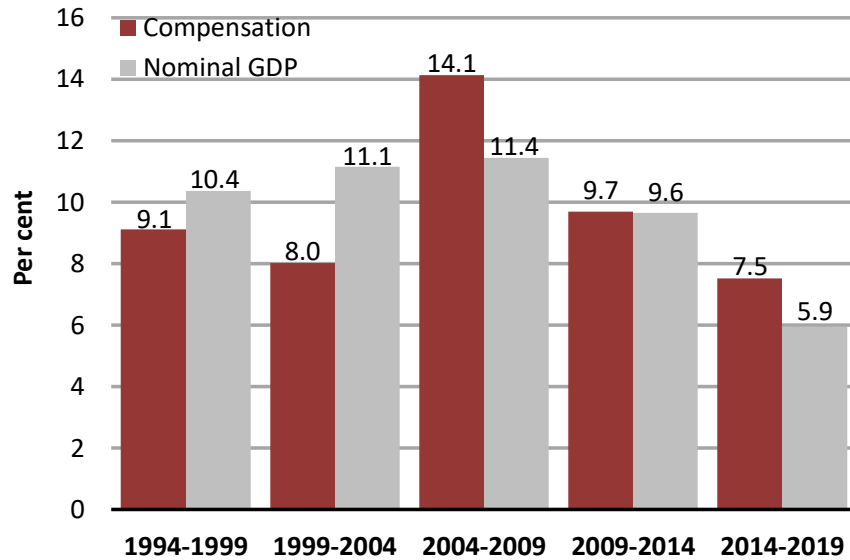
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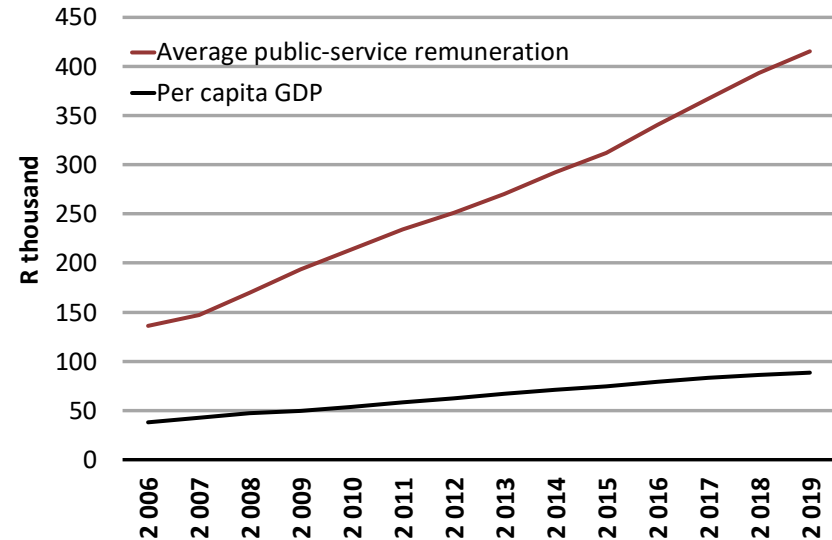


Compensation has outpaced economic performance and GDP per capita

Compensation and nominal GDP growth



Public-service remuneration and per capita GDP



- Until the mid-2000s, public-service compensation spending grew more slowly than nominal GDP. Since 2004, however, this relationship has reversed, and the ratio of compensation spending to GDP has increased to about 11%.
- Since 2006/07, average public-service remuneration has increased at a faster pace than per capita GDP, and is now 4.7 times larger partly the result of slow economic growth and high levels of unemployment.
- Remuneration for employees of national and provincial governments tends to be higher than that of private-sector workers. More than 95 per cent of public servants earn more than the bottom 50 per cent of registered taxpayers.
- Statistics South Africa survey data also suggests that public-sector compensation growth has outpaced private-sector compensation growth over the past decade, as discussed in the 2019 MTBPS.

Improving Value for Money



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Spending reviews are revealing significant savings can be made

Potential savings

HIV/AIDS conditional grant

- Considerable differences across provinces in HIV/AIDS unit cost.
- Spending in per ART patient in 2019/20 ranged from 2,688 in MP to 5,038 in NC.
- If unit expenditure in high spending provinces were at national average, R802 million per year could have been saved.
- Lower than planned ART uptake (partly due to COVID-19 and lockdown) will also give some savings in HIV grant

Managing overtime

- Potential savings of R237 million could have been realised in 2018/19 if overtime payments had been replaced by additional staff
- More work is needed to determine the viability of amending current commuted overtime policy (requires wider DPSA and bargaining council processes)

Goods and services procurement:

- Spending on Security, food services and medical waste varies considerably across provinces
- R501m could have been saved on security services in 2019/20, if high spending provinces were brought down to national average per capita spending
- R87.9m could have been saved in MP and NC in 2019/20 if their medical waste spending per patient were brought down to national average
- Transversal tenders on medical supplies
- About R4.6bn (58%) of R8bn expenditure on medical supplies in 2018/19 were procured outside transversal tenders
- If transversal tenders on these could achieve 10% price reduction, the savings to the sector would be R655m

Goods & Services:

- Some goods reductions could be absorbed by lower CPI projections
- Also specific areas of potential savings identified in spending reviews

Build operational and technical capacity

- Government continues to expand the tools available for provinces and municipalities to improve spending and build operational and technical capacity
 - In 2020, the National Treasury and the Government Technical Advisory Centre helped train provincial officials to conduct spending reviews
 - In 2021, the Government Technical Advisory Centre and provincial treasuries will assess programme relevance, effectiveness and efficiency to improve value for money in selected provincial departments
 - The Infrastructure Delivery Management System has helped provinces to build infrastructure units with qualified staff and institutionalise best practices. This system will be rolled out to municipalities to build capacity, reduce the reporting burden and standardise the system across spheres

COE management

- Realising salary freeze across the board for government employees
- Head count management - cleaning persal; staff reductions through natural attrition and post prioritisation by provinces.
- NT working with NDoH to assist provinces in developing tools for HR prioritisation in hospitals based on affordability. Pilot provinces are MP and FS
- Early retirement has also been decentralised to provinces to simplify the process (over 171 000 employees in provinces are over the age of 55)
- Better management of incapacity leave and ill health retirement
- Better management of pay progression as part of performance management system and overtime
- Alignment of their HR requirements with the set personnel expenditure ceilings as part of the budget process.
- Monthly monitoring of PERSAL movements by PTs to ensure that depts remain within their HR prioritised plans.
- Final provincial numbers to give a much better picture of the impact (provinces maybe impacted differently)

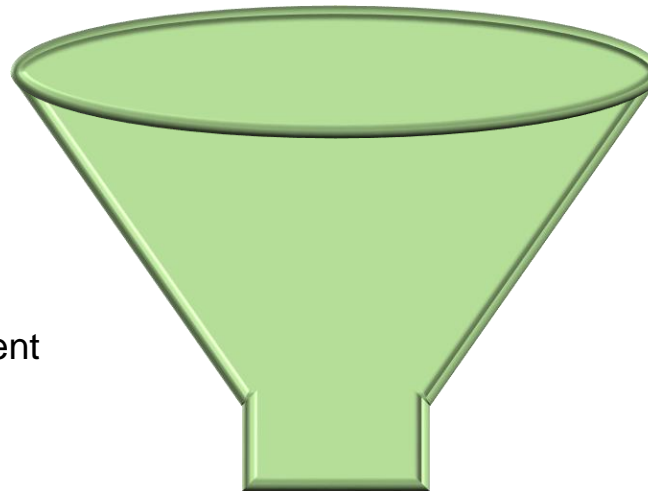
Use of it systems in procurement

- A review of Supply Chain Management (SCM) technology in the public service confirmed that fragmented systems undermine the effectiveness and efficiency of procurement function. It was also noted that amongst the estimated 56 different technologies employed at national, provincial and local government, very few examples of SCM Information and Communication Technology (ICT) modernisation could be identified.
- Inefficiencies in procurement are often related to the duplication of effort and cost relating to high-volume-low-value transactions and manual processes. International studies have shown that considerable saving of administrative costs and process efficiency can be achieved by automating supply chain management processes and also improve audit outcomes within Organs of State.
- The National Treasury, together with the Provincial Treasuries, are investigating opportunities to use IT to improve transparency by:
 - Openly publishing procurement plans of all organs of state
 - Publishing all tenders awards and suppliers that are awarded (including ownership)
 - Introducing an online bidding platform for tendering processes in effort to improve transparency in the tender process

Key factors affecting sustainability

Municipal Factors

- Governance related challenges
- Poor revenue management practices and systems
- Tabling unfunded budgets and poor budget implementation
- Growth in outstanding debtors
- Insufficient investment in infrastructure asset management
- Mismanagement / consistent underspending of CGs
- Growing creditors including non-payment of Eskom and WB
- Poor consequence management
- Poor SCM practices

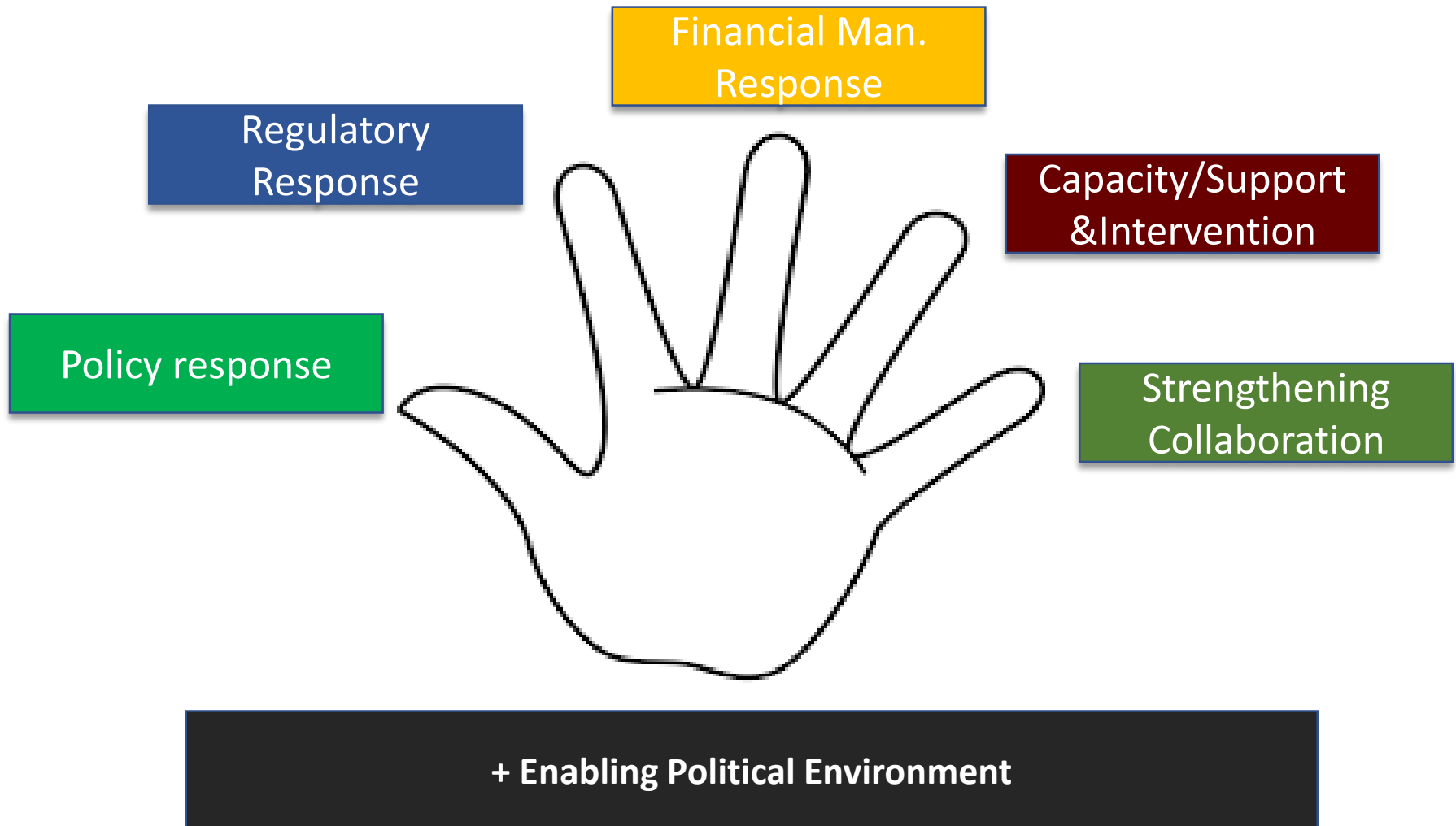


National/Prov. Factors

- Weak implementation of capacity building programmes and initiatives
- Poor use of available information (early warning system) to inform decision making – applies to LG as well
- Weak oversight/monitoring
- Reluctance to invoke S139 interventions correctly
- Political acknowledgement of problems not backed by political action/intervention

How do we solve this problem?

- Only through a multi-pronged response with other stakeholders:



PROVINCIAL ALLOCATIONS



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Transfers to provinces

Total transfers to provinces, 2021/22

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	68 060	13 296	81 357
Free State	29 055	8 459	37 514
Gauteng	111 429	24 968	136 398
Kw aZulu-Natal	107 126	22 734	129 861
Limpopo	60 028	10 523	70 551
Mpumalanga	42 828	8 913	51 741
Northern Cape	13 919	4 685	18 604
North West	36 793	8 222	45 014
Western Cape	54 448	13 530	67 978
Unallocated		451	451
Total	523 686	115 783	639 469

Source: National Treasury

- Conditional grants are growing faster than equitable share
 - Conditional grants grow at average annual rate of 4.6%
 - Equitable share grow at average annual rate of 0.8%
- About 82% of transfers to provinces are through equitable share
- Details of the allocations are in the annexures

Provincial equitable share (PES) formula

- The PES accounts for 81,9% of transfers to provinces and is allocated through a formula based primarily on demand for public services in each province
- The data used is updated annually to reflect changes in relative demand across provinces

PES Review

- From 2021/22 the school-age population sub-component only uses StatsSA mid-year population estimates
- Data has been recently procured from medical aid provider to allow for the review of the health component
- Updated shares per province are provided in the annexures

How the PES formula accounts for demand for services



Education (48%)

Allocated based on:

- School aged population (updated*)
- Enrolled pupils (updated LURITS data from DBE)



Health (27%)

Allocated based on:

- Population without medical aid, adjusted for health risk (updated*)
- Hospital and clinic use (updated DoH data)



Basic Share (16%)

Allocated based on:

- Share of population*



Poverty (3%)

Allocated based on:

- Share of poverty* (IES and mid-year estimates)



Institutional (5%)

Same allocation to each province



Economic activity (1%)

Based on share of GDP-R (updated StatsSA data)

* Updated with data from StatsSA's mid-year population estimates

Changes since the 2020 MTBPS

Responding to COVID-19

- R8 billion has been added in 2021/22 to Provincial Equitable Share
- R2.4 billion has been added in 2021/22 and 2022/23 to HIV, TB, Malaria and Community Outreach Grant

Other changes

- R140 million has been shifted to Human Resources and Training Grant for the hiring of medical interns
- R1.7 billion in 2021/22 and R2.1 billion in 2022/23 reductions in CoE have been shifted to conditional grants from PES

Changes to conditional grants

- From 2021/22 a new standalone ISUPG: province is established for the upgrading of informal settlements
 - This grant will focus purely on the upgrading of informal settlements
 - Informal settlements were not done to scale required within HSDG hence the need for dedicated funding
 - HSDG will focus mainly on non-informal settlement areas but can be used for informal settlements upgrading
- The Title Deed Restoration Grant has been incorporated back into Human Settlements Development Grant to continue with eradication of title deed registration backlogs

LOCAL GOVERNMENT ALLOCATIONS



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Transfers to local government

Transfers to local government, 2021 MTEF

R million	2020/21	2021/22	2022/23	2023/24
	Adjusted budget	Medium-term estimates		
Direct transfers	138 528	138 093	146 098	148 423
Equitable share and related	84 483	77 999	83 085	83 570
Equitable share formula ¹	77 863	71 028	75 795	75 964
RSC levy replacement	5 652	5 963	6 249	6 524
Support for councillor remuneration and ward committees	969	1 009	1 041	1 082
General fuel levy sharing with metros	14 027	14 617	15 335	15 433
Conditional grants	40 018	45 477	47 679	49 419
Infrastructure	37 905	43 143	45 267	46 977
Capacity building and other	2 113	2 333	2 412	2 442
Indirect transfers	6 865	7 055	8 200	8 481
Infrastructure	6 745	6 920	8 060	8 335
Capacity building and other	120	135	140	147
Total	145 393	145 148	154 298	156 904

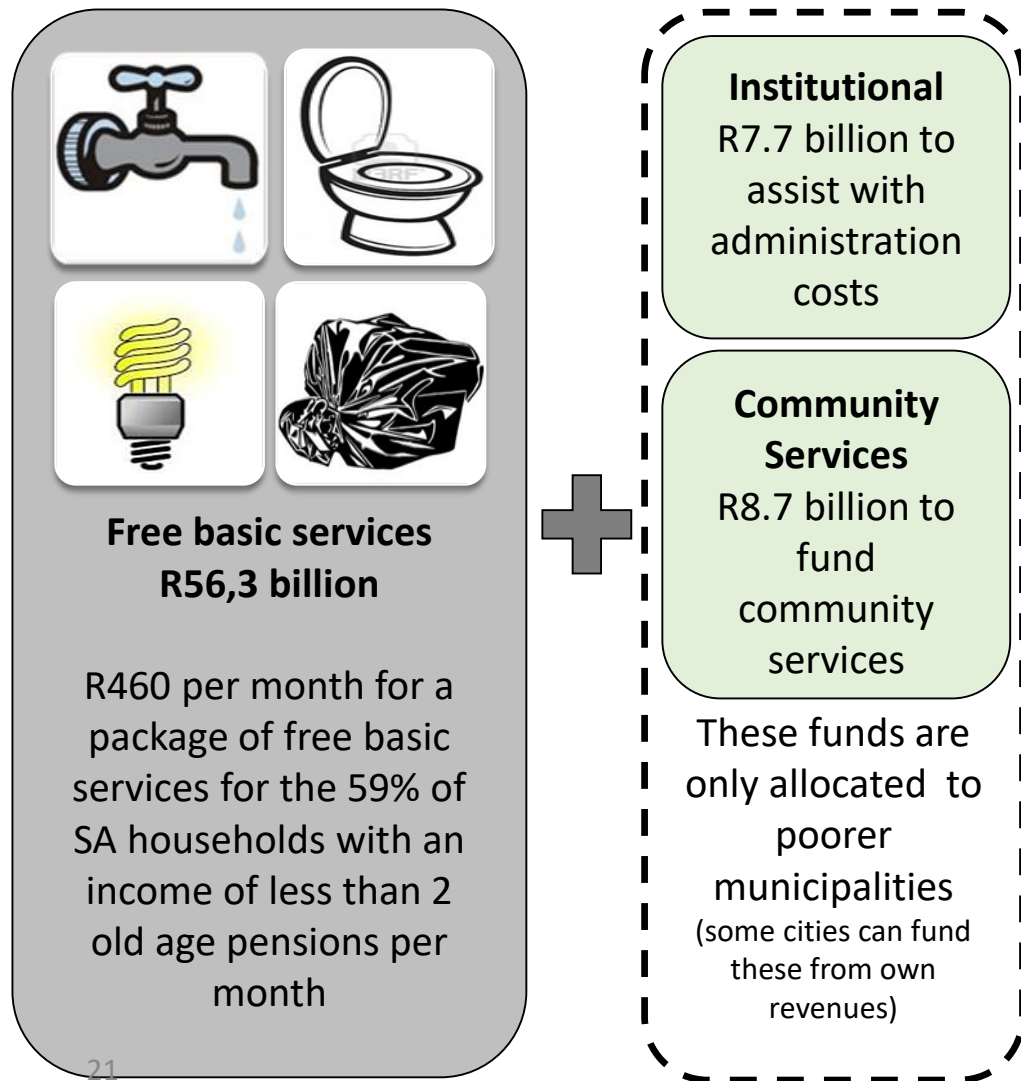
Source: National Treasury

- Equitable share grows at an average annual rate of 4.4% over the MTEF
 - Components of LGES that benefit poor and rural municipalities are growing over the MTEF
 - Support for councillor is growing at 3.7% over the MTEF
- Conditional grants are growing above inflation by a generous 7.3% over the MTEF
- General fuel levy is growing by 3.2% over the MTEF
- Overall direct allocations to local government grow by annual average of 2.3% over the MTEF

Local government equitable share (LGES) formula updates

- Allocated through a formula to ensure fairness for all 257 municipalities
- Formula has updated data for:
 - Household growth: 2,8% growth in StatsSA's 2019 GHS
 - Bulk water: 8,8% average water board bulk price increases
 - Bulk electricity: 8% based on previous approved Multi-Year Price Determination (MYPD)
 - Projected CPI for other costs
- The formula is not fully funded to account for HH growth and cost increases over the MTEF
 - 96% of households are funded through the basic services component in 2021/22
 - Shortfall not absorbed in the community services and institutional components
- Unconditional transfer means that municipalities are accountable for ensuring free basic services are provided to their residents

How the local government equitable share formula works



Changes to conditional grants

Informal Settlements Upgrading Partnership Grant

- Informal settlements were not done to scale required within USDG hence the need for dedicated funding
- Having tested the conditions for this grant as a component of the USDG, the grant will be introduced as a schedule 5 grant from 2021/22
- This grant will focus purely on the upgrading of informal settlements
- DHS led the design of the grant in consultation with the relevant stakeholders, including the cities

Programme and Project Preparation Support Grant

- Having tested the conditions for this grant as a component of the ICDG in 2022/21, ICDG funds will solely fund programme and project preparation activities in the metros from 2021/22 (the name of the grant is also changed)
- All cities will need to have a council resolution on the adoption of the Cities Infrastructure Development Systems guidelines and programme and project approval committees
- Cities will be required to co-finance preparation activities

Asset management provision in the Municipal Infrastructure Grant

- The framework is updated to allow for up to 5 per cent of a municipality's allocation to be used for the development of a Infrastructure Asset Management Plan
- Municipalities will be required to submit business plans endorsed by the relevant sector departments, for approval by DCoG; and copies of their audited asset registers

Budget forum lekgotla outcomes

- **Agreed to** a more stringent approach to enforcement of legislation i.e. Consequence Management, unfunded budgets and interventions
- **Agree** on the need to manage the risks associated with the LG elections through appropriate political messaging
- **Agree** that governance and political leadership in LG needs to be addressed as a pre-condition for financial and service delivery sustainability
- **Agree** that all spheres need to collaborate to ensure that ESKOM signs the Service Delivery Agreement as per S(81) of the Municipal Systems Act

Mitigating the impact of the reductions on service delivery



- **Economic recovery, infrastructure delivery initiatives and policy reforms will be expedited to adapt to tightening national fiscal constraints**
 - The 2021 Budget includes funding for initiatives to **improve municipal revenue collection and support financially distressed municipalities**
 - Municipalities are expected to compensate for some of the impact of these reduction by improving efficiency for example by not agreeing to **unaffordable wage agreements**
 - Municipalities will be assisted in ensuring that they have **fit for purpose organizational structures**
 - NT may support municipalities through the **approval of the rollover** against previous year's committed unspent allocations
 - Cash distressed/poor capacity local municipalities may have their allocations transferred via their district municipalities to support service delivery on the ground (Sections 18 and 19 of DoRA)
 - Through this process, the district will spend the allocation on behalf of the local municipalities
 - Established the **Infrastructure Fund** ("IF") - blended finance structure that has been established to catalyze private sector investment into public infrastructure
- **Policy Reforms**
 - National Treasury has updated the **borrowing policy framework** to expand the scope of prudent municipal borrowing and to create an environment that attracts more players (e.g. insurers, pension funds, and international DFIs) in the municipal debt market space
 - **Accelerated** the implementation of the policy reform including soliciting inputs from the cities; MFMA and PFMA amendment, Revised PPP regulations and Municipal procurement of energy
 - Development of institutional improvement/support plans to enhance the continued rollout of the **District Development Model** (DDM)
- **These interventions will unlock major investments and create employment. It is anticipated that this will result in several households being able to pay for municipal services decrease the fiscus pressures**

DIVISION OF REVENUE BILL CLAUSES



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Division of Revenue Bill Clauses

- The clauses of the Division of Revenue Bill govern the allocation and transfer of funds, reporting requirements, setting of conditions, enforcement mechanisms and in-year changes (among others)
- Most of the clauses remain the same annually
- Technical refinements to the Bill clauses are summarised in the annexure

Policy adjustment

- The requirement for a disaster to be *declared* for disaster relief funding to be released is replaced with the requirement for *classification*
 - Better aligns with the requirements in the Disaster Management Act
 - Allows for quicker initial response to disasters
 - Trigger for release of funds is proof that a province/municipality is overwhelmed
 - Large and long-lasting disasters are still required to be declared
- The requirement for metropolitan municipalities to submit Built Environment Performance Plans (BEPPs) to access infrastructure grants has been removed
 - BEPPs requirements are now incorporated into other planning documents

RESPONSES TO RECOMMENDATIONS ON THE DIVISION OF REVENUE

- Responses to FFC recommendations
- Responses to SCOA and SeCOA recommendations on the 2020 DoR2AB (as contained in Annexure A to the 2021 Budget Review)



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Responses to FFC Recommendations



- The FFC annually makes recommendations on the division of revenue (DoR) and Government responds to these recommendations in Annexure W1 of the Budget Review
- Since 2013 Government responses in Annexure W1 only contain those that are directly or indirectly related to the Division of Revenue (DoR) (as per requirements of Intergovernmental Fiscal Relations Act)
- Other recommendations are considered in different forums and formally forwarded to the relevant departments

Summary of recommendations and responses (1 of 4)

Government broadly agrees with the FFC recommendations that are related to the Division of Revenue

The Minister of Finance should develop (and execute) a clear, coherent and comprehensive macroeconomic framework that is in line with the president's economic and social support response package to Covid-19

- *Economic recovery plan approved by Parliament in October 2020, targets short-term measures to restore confidence and growth and improve long-term growth potential*
 - *infrastructure rollout;*
 - *energy generation;*
 - *employment stimulus; and*
 - *supporting industrial growth*
- *Government will also implement structural reforms including: modernising network industries, reducing barriers to entry and increasing regional integration and trade*
- *Combined with measures to create an enabling environment for small business and investment, it is estimated that these reforms can raise growth to over 3 per cent by 2030 and create over 1 million jobs*
- *The Infrastructure Fund is to complement the economic recovery plan's focus on capital investments (R100 billion committed over 10 years (R18 billion is over the medium term))*
 - *Infrastructure Investment Office has been created in the Presidency*
 - *Operation Vulindlela established to speed up the implementation of priority reforms*

Summary of recommendations and responses (2 of 4)

Adopt a localised product value chain approach. The expression of this approach should be found in the incentive grants frameworks of both provincial and local conditional grants, as **hard conditions to permit procurement of goods only if they are made or assembled locally within the South African borders**

- *Consultation on the Public Procurement Bill is at an advanced stage*
 - *objectives of the Bill include to advance economic opportunities for previously disadvantaged people and women, the youth and people with disabilities, small businesses and promote local production*
- *Review of the full range of national, provincial and municipal provisions is on-going*
- *Changes to the grants to be considered once a preference points framework is in place*

Wrt the NHI, **ensure that an enabling policy and legislative framework**, aligned among the spheres of government, is put in place with due regard to setting norms and standards, and is enforced with proper oversight by the established technical committees

- *Raised in inputs to the NHI White Paper and the Bill*
- *Reforms to the provincial fiscal framework to support the implementation of NHI reforms will be done in line with the principle of “funds follow function” and will be consulted with provinces through appropriate intergovernmental fiscal forums*

Summary of recommendations and responses (3 of 4)

Prioritise all non-profit, non-centre based ECD programmes serving quintiles 1 to 3 for infrastructure funding and registration, which need to be simplified

- *Vangalasi Campaign aims to find all unregistered ECD facilities and prepare them for registration*
- *Funding from the presidential employment initiative has also been used for this purpose and the development of a database of registered and unregistered centres and practitioners*
- *The infrastructure component of the ECD grant continues to fund upgrades of unregistered and conditionally registered ECD centres in poor wards to improve their registration status*

Spearhead the development of a holistic funding framework to ensure a uniform approach to funding learners with special educational need

- *Development of a set of funding norms and standards for inclusive education is on-going*

Summary of recommendations and responses (4 of 4)

Pursue efforts to cost the current norms developed in education and health care and acknowledge the higher costs of providing services to vulnerable groups and the greater demand for services from certain demographic groups. The cost estimates should be used to determine provincial expenditure or under-expenditure performance and in the long term, **be considered for incorporation into the PES formula**

- *Runs the risk of basing allocations on inefficient spending practices*
- *The PES review intends to take due consideration of all quantifiable cost drivers to arrive at reasonable cost estimates*

To boost economic growth through provision of support to emerging farmers, use reprioritised funds to **establish an indirect grant** and task team for basic services and local economic development

- *Emerging farmers already get substantive support through the agriculture grants in the system*
- *Indirect grants undermine the subsidiarity outlined in the constitution*
- *Expenditure efficiency and innovation of the sector is required*
 - *The Department Agriculture, Land Reform and Rural Development provides technical support to farmers in this regard*

Responses to SCOA and SeCOA recommendations on the 2020 DoR2AB

- Full responses to SCOA and SeCOA recommendations are provided in Annexure A to the 2021 Budget Review
- Summary of the recommendations include:
 - Committees wanted to know the impact of the reductions to the conditional grants
 - Relevant departments administering grants have been requested to provide committees with reports on the impact of the reductions to their. Moreover, in implementing reductions to grants, past performance and items being funded are taken into account
 - Monitoring of the additional funding for stimulus package to create job opportunities
 - The Presidency has developed reporting requirements for this programme where reporting is done monthly
 - Approval of rollovers for SIBG, USDG, PTNG and RBIG
 - The rollovers were approved as recommended by the Committee
 - Finalisation of the draft Public Procurement Bill being expedited to deal with issues such as localised product value chain
 - The Economic Recovery Plan announced by the President in October 2020 largely addresses the recommendation of the Committee
 - Support of municipalities by NT, DCoG and SALGA to create credit control measures and effective revenue collections strategies
 - Managing municipal revenue is a shared responsibility. Government is strengthening national coordination through the single and integrated revenue management framework, which improves collaboration between the National Treasury and the Department of Cooperative Governance as they enter a municipality. The National Treasury has also placed revenue advisors at each provincial treasury
 - Reviewing of the equitable share for provinces and local government
 - An update of PES review was highlighted in this presentation. The LGES review is being discussed in relevant technical committees that include DCoG, SALGA, FFC and NT, and also in the Budget Forum

THANK YOU



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<https://vulekamali.gov.za>

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open **local government budget** data portal

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ANNEXURES

- Technical refinements to Bill Clauses
- Details of transfers to provinces and local government



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Technical Refinements To Bill Clauses

- Relaxing the required for National Treasury to approve addition or suspension of municipalities in IUDG to only requiring National Treasury to be comment
- Improving on the timelines for gazetting of the budget related documents after the tabling of the provincial budgets
- Alignment with relevant legislation when resolving intergovernmental disputes

Provincial equitable share (PES) formula

Distributing the equitable shares by province, 2021 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	48,0%	27,0%	16,0%	3,0%	1,0%	5,0%	100,0%
Eastern Cape	13,7%	12,2%	11,3%	14,8%	7,7%	11,1%	12,7%
Free State	5,3%	5,4%	4,9%	5,1%	5,0%	11,1%	5,5%
Gauteng	19,9%	24,2%	26,0%	18,8%	34,3%	11,1%	21,7%
Kw aZulu-Natal	21,5%	20,6%	19,3%	22,0%	16,0%	11,1%	20,4%
Limpopo	12,6%	9,9%	9,8%	13,0%	7,4%	11,1%	11,3%
Mpumalanga	8,3%	7,4%	7,8%	9,3%	7,5%	11,1%	8,2%
Northern Cape	2,3%	2,1%	2,2%	2,2%	2,1%	11,1%	2,6%
North West	6,8%	6,8%	6,9%	8,3%	6,4%	11,1%	7,1%
Western Cape	9,8%	11,4%	11,8%	6,5%	13,6%	11,1%	10,5%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: National Treasury

Provincial conditional grants (1 of 2)

R million	2020/21 Adjusted budget	2021/22	2022/23	2023/24	MTEF total
Agriculture, Land Reform and Rural Development	1 695	2 238	2 287	2 325	6 850
Comprehensive agricultural support programme	1 191	1 558	1 592	1 618	4 768
Ilima/Letsema projects	423	597	610	620	1 828
Land care programme: poverty relief and infrastructure development	81	83	85	86	255
Basic Education	17 216	20 701	21 649	22 583	64 932
Education infrastructure	8 787	11 689	12 229	12 768	36 687
HIV and AIDS (life skills education)	187	242	241	242	725
Learners with profound intellectual disabilities	243	243	249	260	753
Maths, science and technology	333	412	425	433	1 270
National school nutrition programme	7 666	8 115	8 504	8 879	25 498
Cooperative Governance	138	140	145	146	431
Provincial disaster relief	138	140	145	146	431
Health	52 107	52 062	53 068	52 617	157 747
HIV, TB, malaria and community outreach	27 222	27 585	27 910	27 090	82 585
Health facility revitalisation	6 315	6 445	6 886	7 235	20 566
National tertiary services	14 013	13 708	14 000	14 024	41 732
National health insurance grant: health professionals	246	269	272	272	813
Statutory human resource, training and development	4 309	4 054	3 999	3 997	12 050
Human Settlements	15 454	17 604	18 305	19 112	55 020
Human settlements development	14 892	13 403	13 858	14 469	41 730
Title deeds restoration	163	–	–	–	–
Provincial emergency housing	400	311	326	340	977
Informal settlements upgrading partnership	–	3 890	4 121	4 303	12 314

Provincial conditional grants (2 of 2)

	2020/21 Adjusted budget	2021/22	2022/23	2023/24	MTEF total
R million					
Public Works and Infrastructure	834	837	858	861	2 556
Expanded public works programme integrated grant for provinces	421	422	433	435	1 290
Social sector expanded public works programme incentive for provinces	414	414	425	426	1 266
Social Development	1 411	1 057	1 192	1 242	3 491
Early childhood development	1 411	1 057	1 192	1 242	3 491
Sports, Arts and Culture	1 521	2 087	2 156	2 175	6 417
Community library services	1 153	1 496	1 554	1 571	4 620
Mass participation and sport development	368	591	602	604	1 797
Transport	17 217	19 057	19 596	20 460	59 113
Provincial roads maintenance	10 467	11 937	12 506	13 057	37 499
Public transport operations	6 750	7 121	7 090	7 403	21 614
Total direct conditional allocations	107 594	115 783	119 255	121 520	356 558
Indirect transfers	4 160	4 401	4 944	4 882	14 227
Agriculture, Land Reform and Rural Development	36	–	–	–	–
Ilima/Letsema indirect	36	–	–	–	–
Basic Education	2 415	2 284	2 403	2 079	6 765
School infrastructure backlogs	2 415	2 284	2 403	2 079	6 765
Health	1 710	2 118	2 541	2 803	7 462
National health insurance indirect	1 710	2 118	2 541	2 803	7 462

Source: National Treasury

Local government infrastructure grants

	2020/21 Adjusted budget	2021/22	2022/23	2023/24
		Medium-term estimates		
R million				
Direct transfers	37 905	43 143	45 267	46 977
Municipal infrastructure	14 491	15 593	16 852	17 595
Integrated urban development	936	1 009	1 075	1 123
Urban settlements development	10 572	7 405	7 352	7 676
Informal settlements upgrading partnership	–	3 945	4 181	4 365
Public transport network	4 389	6 515	6 767	6 794
Neighbourhood development partnership	479	567	593	619
Integrated national electrification programme	1 359	2 003	2 119	2 212
Rural roads asset management systems	108	110	115	115
Regional bulk infrastructure	2 006	2 156	2 281	2 381
Water services infrastructure	3 368	3 620	3 701	3 864
Municipal disaster recovery	–	–	–	–
Energy efficiency and demand-side management	196	221	231	232
Indirect transfers	6 745	6 920	8 060	8 335
Integrated national electrification programme	1 983	2 824	3 638	3 821
Neighbourhood development partnership	63	91	101	101
Water services infrastructure	591	730	771	805
Regional bulk infrastructure	4 108	3 275	3 550	3 607
Total	44 650	50 063	53 327	55 312

Source: National Treasury

Local government current transfers

R million	2020/21 Adjusted budget	2021/22	2022/23	2023/24
		Medium-term estimates		
Direct transfers	2 113	2 333	2 412	2 442
Municipal disaster relief	204	359	371	373
Municipal emergency housing	159	168	175	183
Infrastructure skills development	144	155	159	160
Local government financial management	545	552	566	569
Programme and project preparation support	314	341	361	377
Expanded public works programme integrated grant for municipalities	748	759	778	781
Indirect transfers	120	135	140	147
Municipal systems improvement	120	135	140	147
Total	2 233	2 469	2 552	2 589

Source: National Treasury

EXAMPLE (HEALTH): HOWEVER THIS NOT HAS ALWAYS BEEN MATCHED BY AN IMPROVEMENT IN OUTCOMES

EXAMPLE: SELECTED HEALTH INDICATORS

Country	GDP per Capita in US\$	Government Health Expenditure per capita in (PPP\$ 2016)		Total Health Expenditure as % of GDP		Government Health Expenditure as % of GDP		Government Health Expenditure as % of Total Health Expenditure		Life expectancy at birth	
	2016	2006	2016	2006	2016	2006	2016	2006	2016	2006	2015
Algeria	3,921	306	676	3.4	6.6	2.3	4.5	68.5	67.7	73.2	75.9
Argentina	12,773	728	1,140	7.6	7.5	4.0	5.6	53.1	74.4	74.9	76.4
Botswana	6,958	463	521	5.0	5.5	3.5	3.1	69.0	55.9	53.7	65.8
Brazil	8,752	492	591	8.3	11.8	3.6	3.9	43.5	33.2	72.4	75.3
Cambodia	1,270	22	50	6.1	6.1	1.0	1.3	15.7	21.8	63.9	68.6
China	8,116	94	442	3.9	5.0	1.4	2.9	35.1	58.0	74.3	76.1
Egypt	3,686	156	151	4.8	4.6	1.7	1.4	36.0	29.3	69.6	71.3
Ghana	1,941	59	73	5.3	4.4	2.1	1.7	39.0	38.4	59.2	62.4
India	1,762	28	61	3.6	3.6	0.7	0.9	20.5	25.4	65.0	68.3
Indonesia	3,606	63	162	2.7	3.1	0.8	1.4	31.1	44.7	67.4	69.0
Kenya	1,559	36	52	5.9	4.5	1.5	1.6	24.8	36.2	57.3	66.7
Malaysia	9,381	354	531	3.2	3.8	1.7	1.9	53.8	50.5	73.6	75.1
Mexico	8,815	405	507	5.7	5.5	2.4	2.9	42.6	52.1	75.5	76.9
Morocco	2,997	114	218	4.9	5.8	1.8	2.7	36.9	46.9	72.0	75.6
Namibia	4,852	455	600	12.1	9.1	5.3	5.6	44.0	61.9	54.0	63.8
Nigeria	2,208	32	28	3.9	3.6	0.7	0.5	18.4	13.0	48.8	53.0
Peru	6,176	197	436	4.5	5.1	2.2	3.3	49.5	64.1	72.8	74.7
Russia	8,910	621	757	4.8	5.3	2.9	3.0	61.7	57.0	66.7	71.2
South Africa	5,327	385	576	6.6	8.1	3.2	4.4	48.3	53.8	52.6	62.0
Thailand	6,114	306	496	3.1	3.7	2.3	2.9	75.3	78.1	72.5	75.1
Turkey	10,817	655	854	5.2	4.3	3.6	3.4	68.9	78.4	72.9	75.5
Ukraine	2,200	329	227	6.2	6.7	3.7	2.9	60.4	42.4	68.1	71.2
Vietnam	2,172	89	169	5.4	5.7	2.3	2.7	42.4	47.4	74.4	76.1
<i>Weighted averages:</i>											
Low income countries		20	25	5.8	5.4	1.5	1.3	26.8	24.1	57.6	62.5
Lower middle-income countries		52	85	3.9	4.0	1.2	1.3	30.1	32.2	64.5	67.5
Upper middle-income countries		251	532	5.2	5.9	2.5	3.2	48.0	54.6	72.8	75.1
High income countries		2,660	4,354	10.5	12.6	6.4	10.1	61.5	79.9	79.0	80.5

- South Africa's public spending on health services, both per capita in PPP-adjusted \$ and as a percentage of GDP is higher than the average for upper middle income countries
- South Africa's life expectancy, despite considerable recent improvement, was still much lower than our UMIC peers in 2015 and is even lower than the average for both low- and lower-middle income countries.

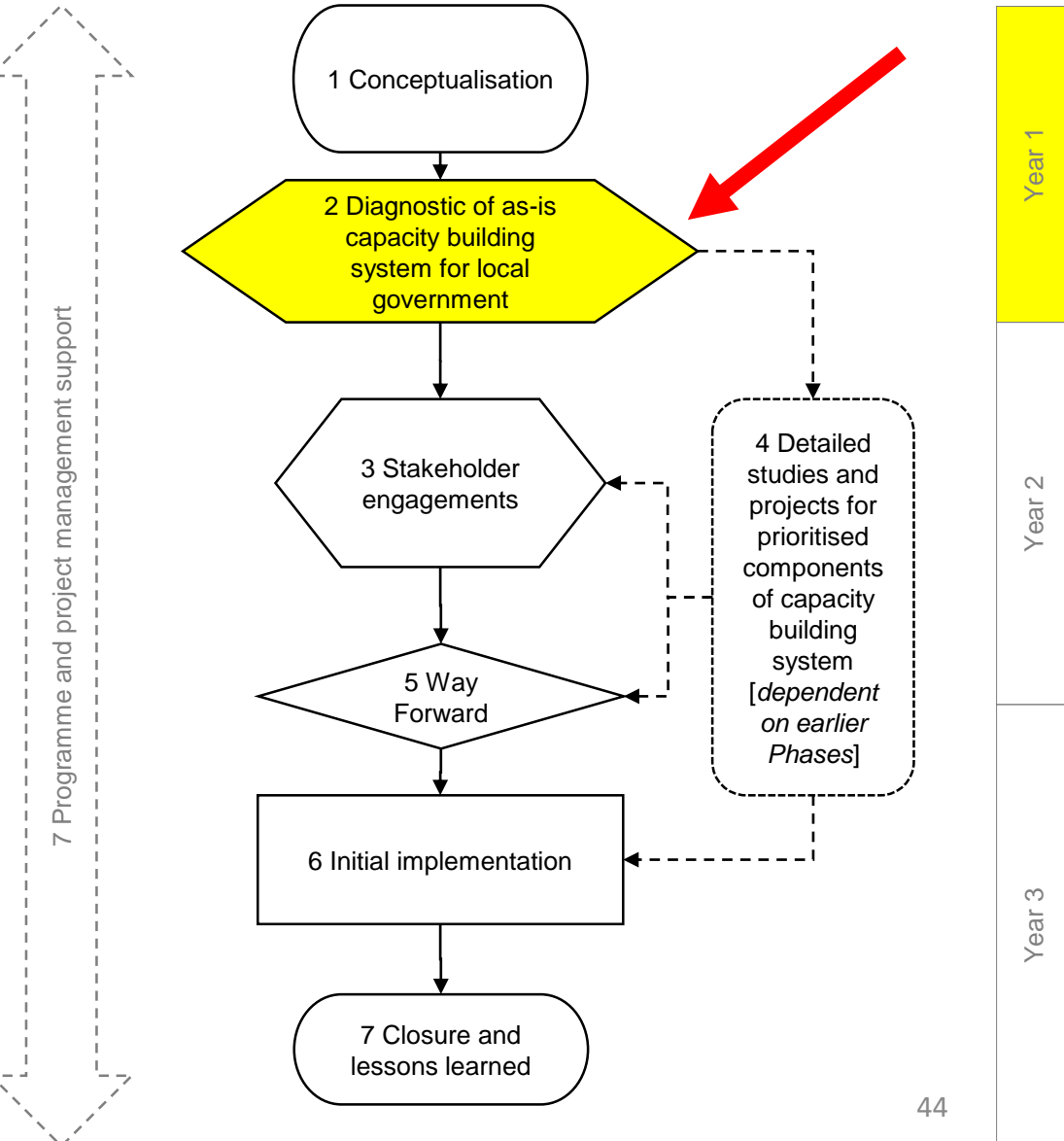
Source data: World Bank World Development Indicators and Global Health Expenditure Database

- Higher public spending is not the only key to key to realisation of Bill of Rights, but also improvements in quality

Budget Forum Lekgotla recommendations

- The second Budget Forum Lekgotla - Local Government Functional and Fiscal Framework, was held on 11 of December 2020, and it was generally resolved that all the recommendations presented and received will be crafted into a joint working programme which has been agreed to between National Treasury, SALGA as well as DCoG. The work programme has been separated into short, medium and long term actions.
- Progress on the short-term actions will be presented at future Budget Forum Makgotla as well as other related intergovernmental forums.
- Along with the recommendation that were presented and agreed the following is a sample of recommendations that were presented by the panel of experts that were present as well as officials and political representatives.
 - Government to review the possibility of having a municipal clearance certificate to conduct business
 - Joint strategy needs to be developed need to get the middle class, businesses and traditional areas to pay for services rendered by local government
 - Revision of timelines around the 3-5 year periods on proposals related to the Municipal Structures Act in terms of defining and clarifying the core service delivery functions

Local government capacity building review programme outputs



1. Programme concept
- 2. Diagnostic Review ←**
3. Stakeholder engagements
4. Detailed studies & projects
5. Way Forward
6. Initial implementation
7. Programme closure