

2013 Division of Revenue Amendment Bill and Provincial and Local Government Fiscal Frameworks for 2014 MTEF

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Contents of 2013 Division of Revenue Amendment Bill

(pages 1 and 2 of Bill)

- Section 12(4) of Money Bills Amendment Procedure and Related Matters Act requires that the Minister of Finance table a Division of Revenue Amendment Bill (DoRAB) with the revised fiscal framework if adjustments budget effects changes to the Division of Revenue Act (DoRA)
- The DoRAB contains two clauses
 - Clause 1 provides for the substitution of Column A of Schedules 1, 2 and 3, Part A of Schedule 4 and Parts A and B of Schedules 5 and 6 to Act 2 of 2013 to provide for the following changes:
 - additional unconditional and conditional allocations to provinces and municipalities
 - allocation of unallocated conditional allocations to provinces and municipalities
 - roll-overs of conditional allocations to provinces and municipalities not transferred by national departments during 2012/13
 - re-allocation of conditional allocations that were not correctly reflected in Schedules
 - rescheduling of allocations between direct and indirect allocations.
 - Clause 2 provides for the short title and commencement of the Bill

In-Year Adjustments to provincial allocations

(1 of 3) (pages 4 and 16 of Bill)

- **Improved Conditions of Service (ICS)**

- Wage increases in 2013/14 are higher than cost provided in budget due to higher than anticipated inflation
 - R563.8m added to provincial equitable share
 - R11.5m to FET colleges

- **Re-grading of clerical posts**

- Additions of R690.8m to provincial equitable share to assist provinces with the cost of upgrading clerical positions

Table 2.1 Additions to PES for ICS adjustments and re-grading of clerical workers, 2013/14

	ICS added to PES	Re-grading of clerical workers added to PES	Total
R Thousand			
Eastern Cape	86 450	5 658	92 108
Free State	37 177	98 834	136 011
Gauteng	96 336	23 641	119 977
KwaZulu-Natal	119 942	296 673	416 615
Limpopo	76 187	48 491	124 678
Mpumalanga	44 227	77 219	121 446
Northern Cape	14 531	20 079	34 610
North West	36 850	119 251	156 101
Western Cape	52 106	963	53 069
Total	563 806	690 809	1 254 615

1. Provincial Equitable Share (PES)

2. Improved Conditions of Service (ICS)

In-Year Adjustments to provincial allocations

(2 of 3) (pages 4, 18, 19, and 24 of Bill)

Roll-overs

- R109.3m for *Devolution of property rate funds* incorporated into the provincial equitable share
- *Basic Education Grants*
 - *Dinaledi schools grant* receives R4m for funds committed to projects in 2012/13
 - *Technical secondary school recapitalisation grant* receives a roll-over of R10.6m

Reimbursements

- R0.4m reimbursed to provinces (FS and MP provinces) for funeral costs incurred for victims of the Marikana tragedy

Rescheduling of National Health Grant (indirect grant)

- R167m will be converted to direct transfers as part of *health facility revitalisation grant* (to KZN and NC provinces)

In-Year Adjustments to provincial allocations

(3 of 3) (pages 15, 16, 19, 20 and 24 of Bill)

- 2014 African Nations Championship
 - At the time 2013 Division of Revenue was tabled, host provinces (FS, LIM and WC) had not confirmed participation and funds remained unallocated
 - R6m will be added for provision of emergency medical services
- Additional funding for disaster allocations
 - R103,2m for the repair and replacement of damaged infrastructure in each sector

Table 2.5 Disaster allocations for Provinces, 2013/14

R Thousand	2013/14
Comprehensive agricultural support programme grant	4 295
Limpopo	2 475
Mpumalanga	303
Western Cape	1 517
Education infrastructure grant	12 603
KwaZulu-Natal	7 574
Mpumalanga	4 866
Limpopo	163
Health facility revitalisation	274
KwaZulu-Natal	62
Mpumalanga	212
Provincial roads maintenance	41 565
KwaZulu-Natal	1 615
Limpopo	4 462
Mpumalanga	18 315
Western Cape	17 173
Human settlements development grant	44 454
KwaZulu-Natal	40 156
Limpopo	1 368
Mpumalanga	1 764
Western Cape	1 166
Total	103 191



2013/14 Adjustments – Local Government

(1 of 2) (pages 4-14, 23 and 25)

- Local government equitable share increased by R13.2m
 - R1.9m reimbursement for Marikana funeral costs
 - R11.3m for funds not transferred to the municipality during 2012/13 due to measures taken to enforce compliance with treasury norms and standards for Bela-Bela municipality
- Conditional grants
 - Rollovers
 - ✓ R2.4m for *Municipal Infrastructure Grant* for Bela-Bela municipality
 - ✓ R58m for *Regional Bulk Infrastructure Grant* mainly due to delays in importing materials and equipment
 - ✓ R100.5m for *Rural Households Infrastructure Grant* for on-site solutions for water and sanitation services for rural households as a result of commitments made for projects that had not been implemented by end of 2012/13
 - Virement
 - R0.6m added to *Expanded Public Works Programme Integrated Grant for Municipalities* to correct for an underpayment in 2013/14 caused by a problem with the electronic transfer system

2013/14 Adjustments – Local Government

(New conditional grant allocation and framework)

(2 of 2) (page 23)

- Disaster allocations
- New *Municipal Disaster Recovery Grant* introduced to fund reconstruction and repair of municipal infrastructure damaged by floods that occurred in WC, EC, LIM and KZN in 2012 and 2013.

Table 2.6 Municipal Disaster Recovery Grant, 2013/14

	2013/14
R Thousand	
Eastern Cape municipalities	111 350
Nelson Mandela Bay	71 961
Ndlambe	15 353
Kouga	4 477
Koukama	8 439
Makana	8 724
Sundays River Valley	2 396
Western Cape municipalities	6 688
Langeberg	104
Eden District	6 584
Limpopo municipality	264
Maruleng	264
KwaZulu-Natal municipality	38
Umvoti	38
Total	118 340

Changes to Gazetted frameworks and allocations

Changes to Gazetted frameworks and allocations

- Frameworks setting conditions for each grant, as well as detailed allocations per municipality and per grant component for provinces are gazetted by the Minister of Finance in terms of Section 15(1) of 2013 Division of Revenue Act
- Changes in the Division of Revenue Amendment Act (once enacted) will require some changes to gazetted frameworks and allocations
- Some corrections to frameworks also need to be effected
- Section 15(2) of the Division of Revenue Act, 2013, requires Parliament to be consulted on these changes
- Proposed changes to gazetted frameworks are submitted for Parliament's consideration together with the Bill
- Proposed changes to frameworks are described in Part 3 of Explanatory memorandum (page 36 of the Bill) and the changes to the gazetted frameworks and allocations are included from page 39 of the Bill

Changes to provincial government grant frameworks

Disaster Recovery Allocations

- The frameworks for the *human settlements development grant, education infrastructure grant, comprehensive agricultural support programme grant, provincial roads maintenance grant and health facility revitalisation grant*) have been amended to include the following conditions to govern the use of disaster funds added:
 - Business plans in line with post verification assessment reports must be submitted to National Disaster Management Centre
 - Disaster reconstruction and rehabilitation funds only used for approved projects
 - Quarterly reports on expenditure on disaster projects submitted to NDMC
 - Amount per province that can only be used for disaster recovery
- *Education Infrastructure Grant*
 - Corrected the misalignment of framework to comply with section 26(4) of DORA, 2013
 - The Act requires that provinces submit health and education plans two years in advance to improve the rollout of provincial infrastructure to ensure better planning from provinces

Changes to local government frameworks (1 of 2)

- *Public Transport Network Operating Grant* framework corrections:
 - Insurance added to the list of indirect operating expenses that can be funded
 - Previous incorrect reference to the Public Transport Network Operating Grant changed to reflect the Public Transport Operations Grant (this condition is meant to provide for the possible devolution of provincial bus subsidies)
- Proposed changes to Municipal Water Infrastructure Grant include:
 - Correction to align grant requirements with Municipal Finance Management Act regulations on supply chain management. DWA cannot sit on a bid adjudication panel so this is changed to ensure that DWA can require that they be invited to participate on the bid specification and bid evaluation processes
 - Requirement that DWA approve detailed designs corrected to reflect that DWA approval must come earlier, so the framework now reads that DWA must approve technical reports and business plans for each project

Changes to local government frameworks (2 of 2)

- New framework for *Municipal Disaster Recovery Grant*
 - This new grant requires that a new framework be gazetted to ensure that funds allocated for disaster recovery are only spent on approved disaster recovery projects.
- *Rural Households Infrastructure Grant* framework amended to include indirect grant allocations rolled over and require that all projects under the indirect grant must be implemented in consultation with municipalities.
- The national departments administering these grants have all agreed to the changes to their respective grant frameworks
- Allocations for host cities of the 2014 African Nations Championship tournament will be gazetted now that the host cities have been confirmed
- Changes to allocation per municipality for the grants that have had their allocations amended in the DORAB will also be gazetted.

2014 Medium Term Expenditure Framework:

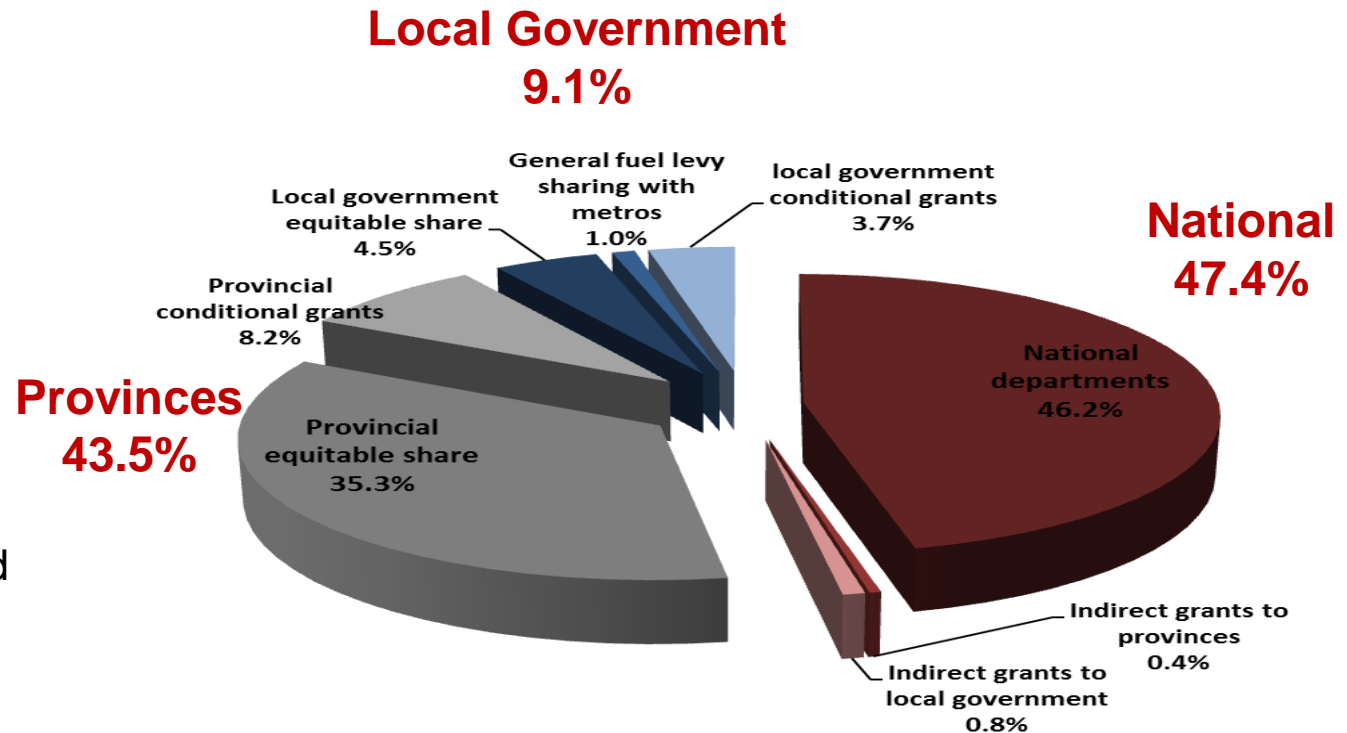
Provinces and Local Government

Summary of the 2014 MTEF Division of Revenue

Major additions

- **Provinces:**
 - Increased cost of employment
 - HPV vaccine
 - Informal settlement upgrading for mining towns
 - Disaster recovery
- **Local government:**
 - Bulk water (indirect)
 - Promoting integrated cities
 - Managing human settlements
 - Disaster recovery
- **Reductions made to slow spending grants**

Division of Revenue per sphere, 2014 MTEF



Main budget framework, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		Outcome		Revised	Medium-term estimates		
State debt cost	66.2	76.5	88.1	100.5	110.4	122.2	135.4
Non-interest expenditure	739.8	813.5	877.4	949.1	1 027.8	1 106.1	1 185.1
<i>Percentage increase</i>	<i>7.1%</i>	<i>10.0%</i>	<i>7.9%</i>	<i>8.2%</i>	<i>8.3%</i>	<i>7.6%</i>	<i>7.1%</i>
Total expenditure	806.0	889.9	965.6	1 049.6	1 138.1	1 228.3	1 320.5
<i>Percentage increase</i>	<i>7.8%</i>	<i>10.4%</i>	<i>8.5%</i>	<i>8.7%</i>	<i>8.4%</i>	<i>7.9%</i>	<i>7.5%</i>
Contingency reserve	–	–	–	–	3.0	6.0	18.0
Division of available funds							
National departments	355.2	381.3	410.2	452.5	487.9	520.4	550.1
Provinces	322.8	362.5	388.2	415.8	444.7	478.2	507.8
Equitable share	265.1	291.7	313.0	338.9	362.5	388.0	412.0
Conditional grants	57.7	70.8	75.2	76.9	82.3	90.2	95.8
Local government	60.9	68.3	76.4	84.8	91.9	101.4	106.7
Equitable share	30.5	33.2	37.1	40.6	44.5	50.2	52.9
General fuel levy sharing with metropolitan municipalities	7.5	8.6	9.0	9.6	10.2	10.7	11.2
Conditional grants	22.8	26.5	30.3	34.6	37.2	40.5	42.6
Total	738.9	812.1	874.9	953.1	1 024.5	1 099.9	1 164.6
<i>Percentage shares</i>							
National departments	48.1%	47.0%	46.9%	47.5%	47.6%	47.3%	47.2%
Provinces	43.7%	44.6%	44.4%	43.6%	43.4%	43.5%	43.6%
Local government	8.2%	8.4%	8.7%	8.9%	9.0%	9.2%	9.2%

Changes to Division of Revenue, 2014 MTEF

	2013/14	2014/15	2015/16	2016/17	Average annual growth 2013/14 – 2016/17
R billion	Revised	Medium-term estimates			
National allocations	452.5	487.9	520.4	550.1	6.7%
<i>of which:</i>					
<i>Indirect grants to provinces</i> ¹	2.7	4.8	4.3	4.6	19.5%
<i>Indirect grants to local government</i> ¹	5.7	7.3	9.1	9.7	19.5%
Provincial allocations	415.8	444.7	478.2	507.8	6.9%
<i>Equitable share</i>	338.9	362.5	388.0	412.0	6.7%
<i>Conditional grants</i>	76.9	82.3	90.2	95.8	7.6%
Local government allocations	84.8	91.9	101.4	106.7	8.0%
Total allocations	953.1	1 024.5	1 099.9	1 164.6	6.9%
Changes to baseline					
National allocations	-0.0	-1.6	-1.4	2.2	
<i>of which:</i>					
<i>Indirect grants to provinces</i> ¹	-0.2	-0.4	-0.7	-0.7	
<i>Indirect grants to local government</i> ¹	0.2	0.1	0.4	0.5	
Provincial allocations	1.7	3.0	3.8	4.4	
<i>Equitable share</i>	1.4	2.5	4.3	5.1	
<i>Conditional grants</i>	0.3	0.5	-0.5	-0.7	
Local government allocations	0.1	0.3	-0.1	-0.1	
Total	1.8	1.7	2.4	6.5	

Some shifts may be made between direct and indirect grants before the Budget is tabled, depending on which sphere is best placed to implement projects

1. Amounts may be shifted between direct and indirect grants to provinces and local government before the 2014 Budget is tabled

Changes to provincial equitable share and grants: 2014 MTEF

- ❑ R11.9b (R2.5b 2014/15, R4.3b 2015/16 and R5.1b 2016/17) added to provincial equitable share over the MTEF to fund:
 - Costs of wage agreement (due to higher than anticipated inflation)
 - Re-grading of clerical positions
 - OSD for therapists in education (funded through a conditional grant in first two years)
 - Shelters for victims of abuse
 - Rollout of new HPV vaccine

- ❑ Conditional grants proposed additions:
 - *Further Education and Training Colleges Grant* to cover higher than anticipated salaries
 - Fast track the upgrading of informal settlements in mining towns through addition to the *Human Settlements Development Grant*
 - *Public Transport Operating Grant* to offset rising costs of fuel and labour in provincial bus services
 - Repair and replacement of provincial infrastructure damaged by floods in 2012 and 2013

- ❑ Modest reductions proposed to slow-spending grants including:
 - Comprehensive Agriculture Support Programme Grant, Landcare Grant, Education Infrastructure Grant, School Infrastructure Backlogs Grant (an indirect grant), National Health Grant (an indirect grant), and Expanded Public Works Programme Grants
 - Shift of R900m from the Human Settlements Development Grant to Metros

Changes to local government equitable share and grants: 2014 MTEF

❑ Equitable share

- Baseline growth averages 9.2 per cent per year over the MTEF. New formula that funds free basic services for the 59 per cent of households with an income less than 2 old age grants still being phased-in.

❑ Conditional grants

- Moderate reductions to make funding available to other grants: Municipal Infrastructure Grant, Urban Settlements Development Grant, Expanded Public Works Integrated Grant for Municipalities, Infrastructure Skills Development Grant and Energy-Efficiency Demand Side Management Grant
- Substantial investments made to accelerate bulk water projects that will support broader economic development.
 - R934 million
- Targeted incentives to strengthen city spatial development over MTEF through:
 - Proposed addition to the Integrated City Development Grant of R356 million to incentivise cities to develop more integrated and efficient spatial forms
 - Devolution of human settlements function to six metropolitan municipalities will be supported through addition of R900 million to develop cities' capacity to manage human settlements development (possibly through a new grant)

THANK YOU