

Parliamentary

Brief on 2022 Division of Revenue
Bill for Standing Committee on
Appropriation, 8 March 2022

Budget
Office



Outline

- Introduction
- Background
- Division of revenue in context
- Funding structure of the different spheres of government
- Monitoring performance on service delivery

Introduction

- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009
- The purpose of this presentation is to provide an analysis of the Division of Revenue Bill to assist Members with their discussions on the Bill before adoption or recommendations
- The presentation focuses on:
 - Roles and responsibilities for the implementation of the DORA
 - The situation to which government needs to respond
 - Changes made to the 2022/23 financial year in all three spheres of government
 - The change in the division of revenue over time
 - Changes to the provincial equitable share
 - Changes to provincial and local government conditional grants

Background

Legislative mandate

Needs analysis

Constitutional requirements

- The Constitution (Section 214(1)) requires that the nationally raised revenue be divided equitably between national government, the nine provinces and 257 municipalities
- The Constitution also requires the following ten principles be considered in the division of revenue between national, provincial and local government:
 1. National interest and the division of resources
 2. Provision for debt costs
 3. National government's needs and interests
 4. Provincial and local government basic services
 5. Fiscal capacity and efficiency
 6. Developmental needs
 7. Economic disparities
 8. Obligations in terms of national legislation
 9. Predictability and stability
 10. Flexibility in responding to emergencies

Object of the DORA

- To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2022/23 financial year
- The determination of each province's equitable share
- Allocations to provinces, local government and municipalities from national government's equitable share
- The responsibilities of all three spheres pursuant to such division and allocations
- To provide for matters connected therewith

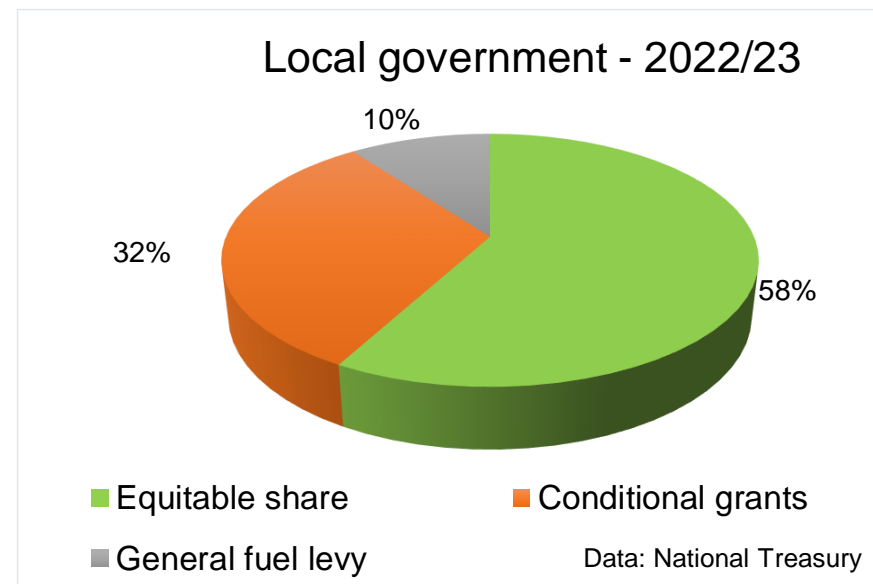
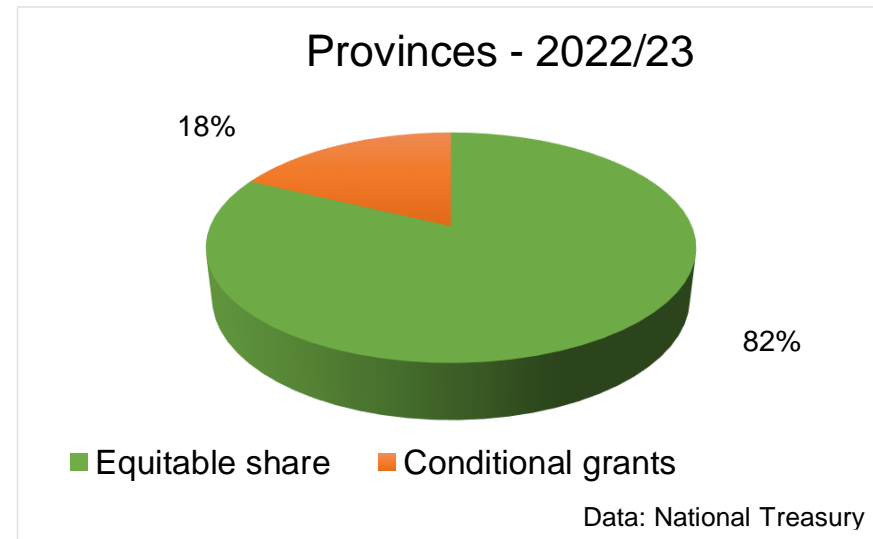
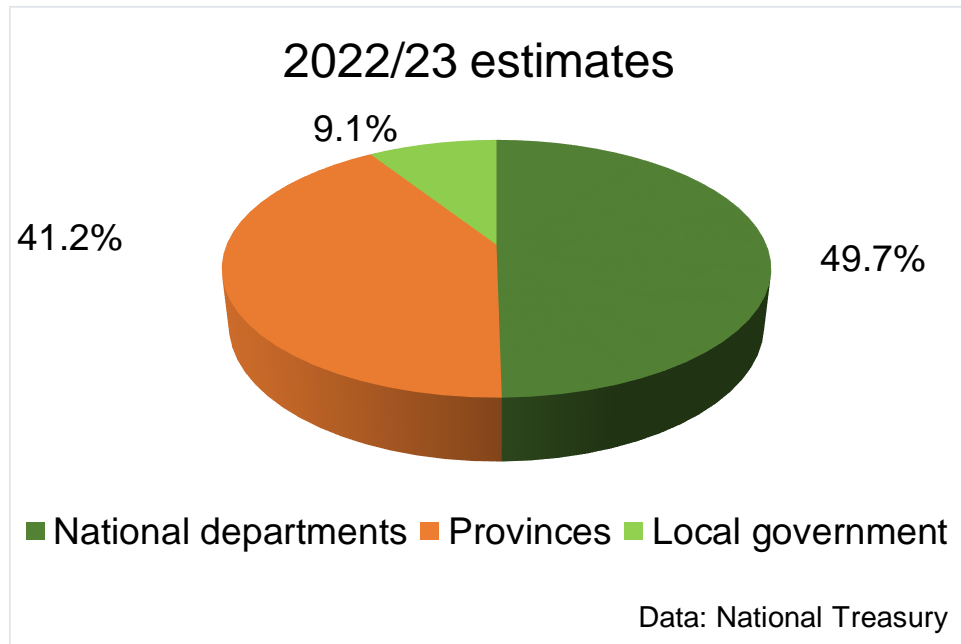
DORA: Roles and responsibilities for the implementation

DPME	Monitoring of implementation of Annual Performance Plans (QPR System)
National Treasury	Determine formats of budget documentation Monitoring of implementation of Annual Budget (IYM System)
National Departments (transferring officer as per DORA and PFMA)	Formats of Business Plans According to the DORA Section 9. <ul style="list-style-type: none"> • National departments must monitor information on financial and non-financial performance of programmes partially or fully funded by an allocation in Part A of Schedule 4, • Submit a quarterly financial and non-financial performance report to the National Treasury within 45 days after the end of each quarter in terms of the applicable framework • Evaluate the performance of programmes funded or partially funded by the allocation and submit such evaluations to the National Treasury within four months after the end of the financial year applicable to a provincial department or a municipality, as the case may be • Any monitoring programme or system that is used to monitor information on financial and non-financial performance of a programme partially or fully funded by a Schedule 4 allocation must not impose any excessive administrative responsibility on receiving officers beyond the provision of standard management and budget information be compatible and integrated with and not duplicate other relevant national, provincial and local systems; etc.
Auditor-General of SA	Annual Reports, including Annual Financial Statements
Parliament	Oversight: Depends on the mechanisms in place to allow for proper oversight

Legislative mandate of the three spheres of government

- National government mainly provides:
 - Central Government Administration
 - Justice & Protection Services
 - Financial & Administration Services
 - Economic Services & Infrastructure Development
 - Social Services
- Provinces are responsible for:
 - Basic education
 - Health services
 - Roads
 - Housing
 - Social development
- Municipalities provide basic services such as:
 - Water
 - Sanitation
 - Electricity reticulation
 - Roads
 - Community services

2022 Division of Revenue



Needs analysis

National

Provincial

Local

Situation analysis: National sphere of government

Social Protection and Safety and security are the two largest expenditure functions of the national sphere of government

- The Social Protection This function includes programmes aimed at income protection and social welfare, and also supports women, youth and persons with disabilities. Excluding the special COVID-19 social relief of distress grant, on average 18.3 million South Africans receive one or another form of social grant
- At the end of September 2021, there were 18 439 185 social grants paid to 11 431 843 beneficiaries
- Social Development estimated that approximately 13.2 million people will be eligible to receive the special Covid-19 SRD grant in 2021/22:
 - 5 853 661 beneficiaries based on previous grant recipients as at 31 March 2021
 - 7 360 011 caregivers
- During September 2021 there were 13 787 072 applications for the second phase of the Covid-19 Social Relief of Distress (SRD) grant of which:
 - 8 836 723 applications were approved
 - 7 385 206 grants were paid
 - 69 355 applications were received from Asylum seekers

Situation analysis: National sphere of government (cont.)

- The economic impact of serious corruption in the public and private sectors may be difficult to accurately determine but the reputational damage to the country is discernible
- The COVID-19 pandemic has heightened the vulnerability of certain groups that are exposed to Gender Based Violence and Femicide (GBVF), in particular women and children
- Between the 3 months from July 2021 to end of September 2021:
 - 9 556 people were raped between
 - 72 762 cases of common assault and assault grievous bodily harm were opened with the police
 - 6 163 people were murdered in South Africa. This is 1 056 more people murdered compared to the corresponding period in the previous financial year
 - There were 28 988 cases of contact-related crimes reported to the police during this reporting period. This is 1 997 more such cases compared to the previous reporting period
 - There have been 2 000 kidnapping cases reported to the police

Situation analysis: Provincial sphere of government

Education and Health are the largest expenditure functions of the provincial sphere of government

- About 3 197 822 children, between 0 and 4 years of age, accessed ECD services by March 2021, almost reaching the target of providing 3.6 million children with access to ECD services by 2024
- Enrolments of children aged 5 to 6 years in school or ECD centers had grown to 89.2 per cent for 5-year old and 96.3 per cent for 6-year old children
- The 2020 Trends in International Mathematics and Science Study (TIMSS) results show that grade 5 scores achieved are 374 and 324 for maths and science respectively. Math results show a slight drop from 376 in 2015. Both results are below the 2023 target of 426, which indicates that the MTSF Grade 5 TIMSS mathematics score target of 426 in 2023 may not be attainable
- The proxy for quality education is tracked through the number of learners achieving 60 per cent and above in Maths and Science in grade 12. The 2020 results reflected rates of 13.2 per cent and 15.3 per cent respectively in the two subjects

Situation analysis: Provincial sphere of government (cont.)

- According to StatsSA data South Africa's average Life Expectancy (LE) at birth was 65.5 years, in 2020, against the MTSF target of at least 70 years by 2030
- Child indicators show that in 2020, StatsSA estimated South African's Infant Mortality Rate (IMR) as 23.6 deaths per 1 000 live births while the IMR was 22.1 per 1 000 in 2019
- The under-5 mortality rate (U5MR) was estimated at 34.1 deaths per 1 000 live births in 2020, while the country's U5MR was 28.5 per 1 000 in 2019
 - The MTSF target is to decrease the IMR to less than 20 deaths per 1 000 live births by 2024 and the under-5 mortality rate to less than 25 deaths per 1 000 live births by 2024

Local government: Situation analysis

- Local government plays a critical role as a first line of interaction between citizens and government. There were 1 225 service delivery protests between the years 2004 and 2016. Dissatisfaction with service delivery has often been cited as the reason for the increase in service delivery protests within South Africa
- Poor service delivery has a disproportional impacts on different households (along racial, gendered and geographic lines), because it is predicated upon a set of distributive relations across different social groups
- COVID-19 has brought to the fore, the centrality of (social) reproduction – household duties such as cooking, cleaning, water and fuel collection, child care, or elder care. These activities, which are disproportionately undertaken by women and girls, are exacerbated by the lack of access to basic services
- These vital household duties are unpaid work and not measured in GDP. Poor service delivery means more time doing unpaid work and affects women's labour market participation

Local government: Situation analysis(cont.)

- The Non-financial Census of Municipalities (NFCMS) report for 2019 shows that:
 - Consumer units receiving free basic water declined by over 1 million in 2019 compared to 2018
 - Consumer units receiving free basic sewerage and sanitation in 2019 decreased by 645 866 compared to 2018
 - 132 303 fewer consumer units received free basic electricity services in 2019 compared to the year before
 - At the same time, millions of households are faced with a trade-off between buying food and paying for municipal services
- Research by the Public Affairs Research Institute finds that:
 - Over more than 2 decades, local government has not been able to fulfil their conflicting objectives and their financial viability has suffered
 - Millions of households that are eligible for free services do not get them due to a dysfunctional system for the registration of indigent households

Challenges to service delivery

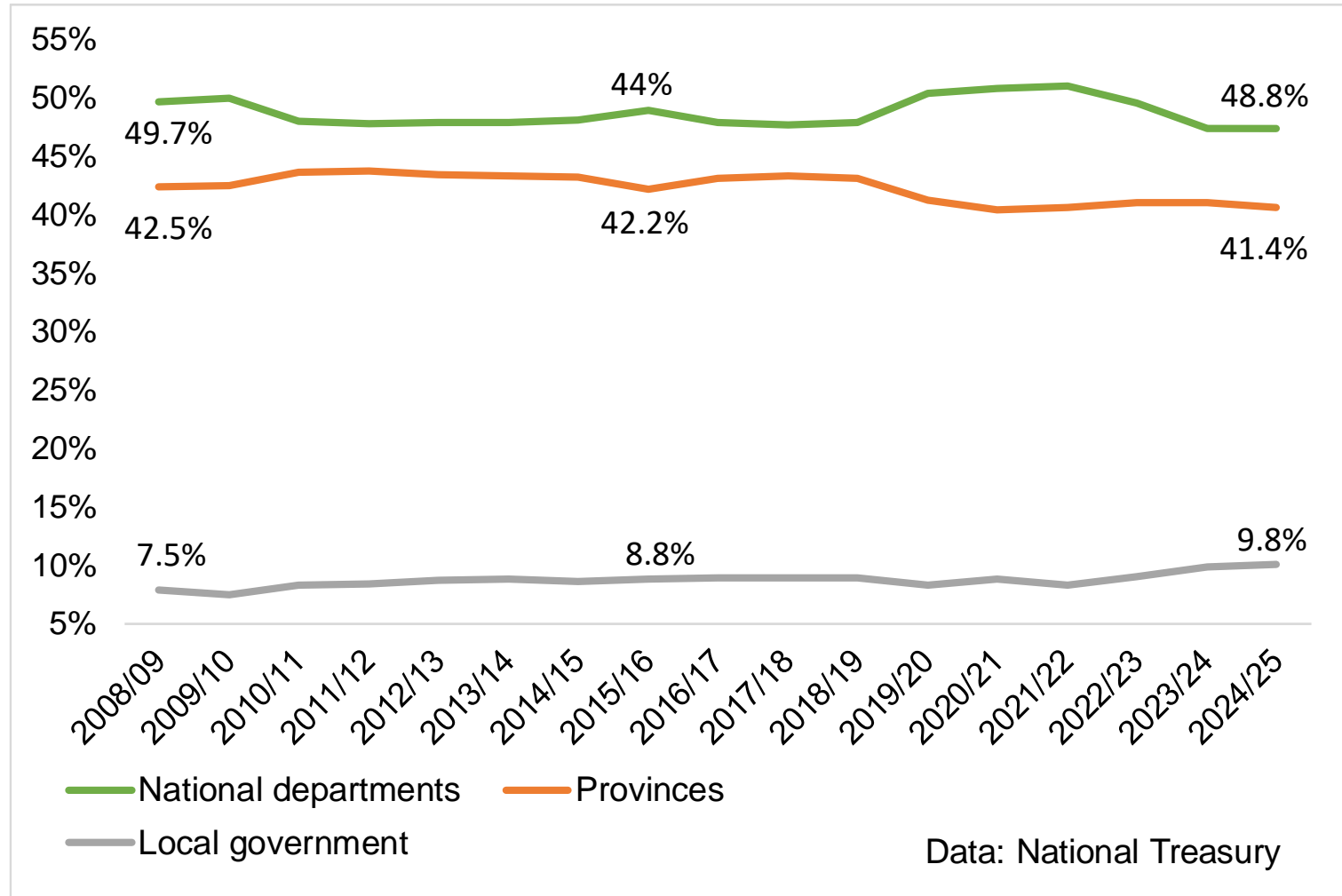
- The financial and operational challenges that hinder local government from delivering basic services are often closely related to one another
- The failure to adequately address these challenges cause immense hardship and detrimentally affect social and economic development
- Much of the literature on local government suggests that this poor performance, which often leads to service delivery protests, is due to a combination of capacity constraints, poor planning, ineffective financial management, and inadequate monitoring and evaluation in the context of poor governance, convoluted political processes and corruption
- Linked to this is the lack of up to date data. In 2021 StatsSA indicated that the detailed General Household Survey had to be suspended due to budget cuts. Without this critical information, data driven policy making will be undermined
- Performance and financial audits by the AGSA point to serious service delivery problems within local government. They reported that:
 - Only 28 per cent of municipalities submitted credible financial statements for audit in the 2019/20 financial year
 - The number of municipalities in financial distress has risen from 86 in 2013/14 to 175 in 2019/20, and 123 municipalities passed unfunded budgets

Division of Revenue in context

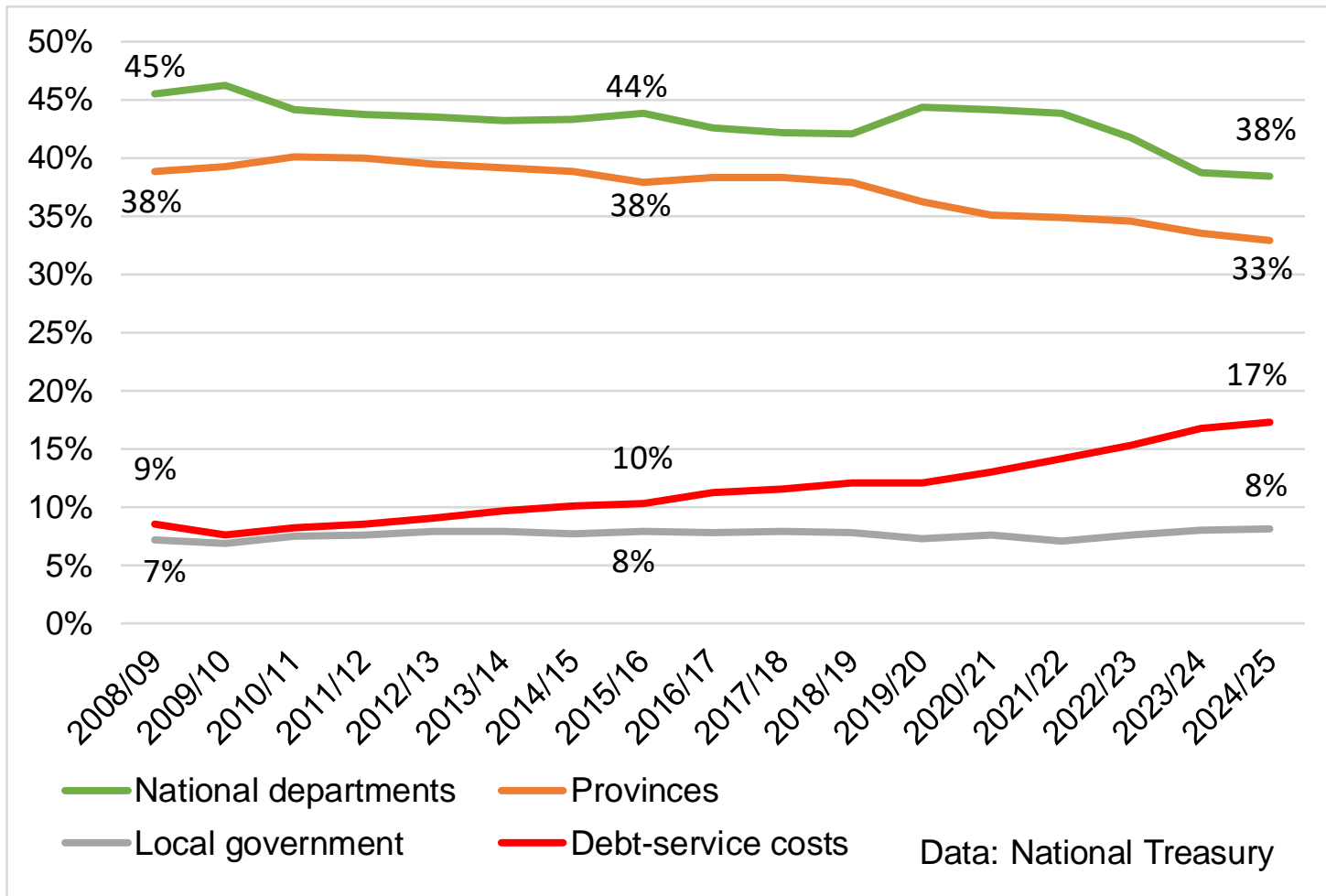
Changing shares of the division of revenue over time

Division of revenue per capita

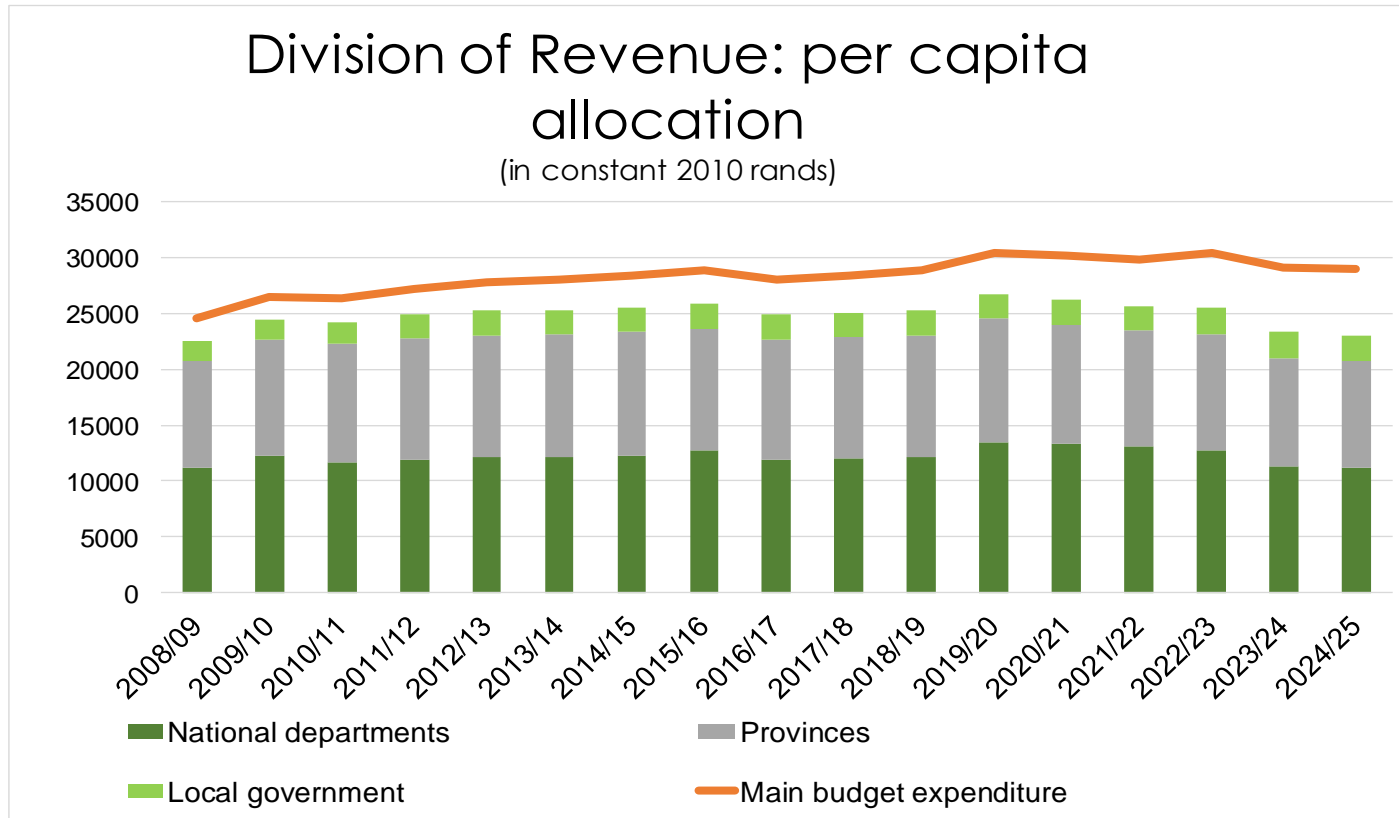
Changing shares of Division of Revenue from 2008/09



Changing shares of Division of Revenue from 2008/09 – including debt-service costs



2022 Division of Revenue – real per capita



Growth in real per capita expenditure

	2008/9 - 2021/22	2021/22 - 2024/25
National depts.	1.2%	-5.1%
Provinces	0.7%	-2.8%
Local government	1.5%	3.5%
Debt service costs	5.5%	6.1%
Main budget ex.	1.5%	-0.9%

Funding structures of the different spheres of government

National

Provincial

Local

Structure of the division of revenue

- National share includes conditional grants to provinces and local government, general fuel levy sharing with metropolitan municipalities, debt-service costs the contingency reserve and provisional allocations
- Provincial share: 28.4 per cent of main budget expenditure
- Local government share: 4.4 per cent of main budget expenditure

R million	2022/23	2022/23	2023/24	2024/25
	Allocation	% of total	Forward estimates	
National ¹	1 327 188	67.2%	1 354 771	1 433 054
Provincial	560 757	28.4%	543 149	562 018
Local	87 311	4.4%	94 087	101 486
Total	1 975 257	100.0%	1 992 007	2 096 559

Source: National Treasury

Funding structures of the different spheres of government

- Provincial equitable share: 82.2 per cent
- Provincial conditional grant: 17.8 per cent
- Local government equitable share: 58 per cent
- Local government conditional grant: 31.9 per cent
- Fuel levy: 10.2 per cent
- To note that the division of revenue is not a total reflection of local government spending

R billion	2022/23 Medium-term estimates	2022/23 % of non interest allocation
Division of available funds		
National departments	824.7	49.60%
<i>Indirect grants</i>	12.7	1.54%
Provinces	682.5	41.00%
Equitable share	560.8	82.16%
Conditional grants	121.8	17.84%
Local government	150.6	9.10%
Equitable share	87.3	57.96%
Conditional grants	48.0	31.85%
General fuel levy sharing with metros	15.3	10.18%
Provisional allocation not assigned to votes ¹	5.6	0.33%
Non-interest allocations	1 663.5	100.00%

1. Includes support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

National spending: Transfers above 50 per cent

	Appropriated (including direct charges)	Current payments	Transfers and subsidies	% of total	Payments for capital assets	To be appropriated	Increase/ Decrease
R thousand	2021/22			2022/23			from 2021/22
3 Cooperative Governance	100 875 870	5 062 976	106 259 832	95.42%	42 053	111 364 861	10 488 991
7 National School of Government	210 189	108 522	115 721	50.74%	3 826	228 069	17 880
8 National Treasury	849 230 119	304 582 508	605 346 874	66.38%	38 153	911 965 823	62 735 704
13 Public Works and Infrastructure	8 343 204	1 080 362	7 446 810	87.13%	20 095	8 547 267	204 063
16 Basic Education	28 084 757	2 836 768	24 662 313	83.43%	2 061 086	29 560 167	1 475 410
17 Higher Education and Training	115 596 868	11 453 552	118 657 271	91.18%	23 375	130 134 198	14 537 330
18 Health	62 543 271	4 772 177	58 329 780	90.39%	1 429 020	64 530 977	1 987 706
19 Social Development	204 160 242	922 791	256 065 389	99.64%	13 181	257 001 361	52 841 119
20 Women, Youth and Persons with Disabilities	763 539	200 963	782 209	79.23%	4 082	987 254	223 715
29 Agriculture, Land Reform and Rural Development	16 920 399	7 886 844	9 147 149	52.91%	253 705	17 287 698	367 299
30 Communications and Digital Technologies	3 692 881	743 279	1 960 420	72.15%	13 483	2 717 182	-975 699
33 Human Settlements	31 657 958	945 049	32 072 583	97.12%	7 084	33 024 716	1 366 758
34 Mineral Resources and Energy	9 180 764	2 068 376	8 263 833	79.88%	13 462	10 345 671	1 164 907
35 Science and Innovation	8 933 315	577 594	8 552 691	93.64%	3 015	9 133 300	199 985
36 Small Business Development	2 538 288	253 054	2 305 319	89.94%	4 736	2 563 109	24 821
37 Sport, Arts and Culture	5 693 941	1 008 690	5 080 208	80.70%	206 230	6 295 128	601 187
38 Tourism	2 429 627	921 130	1 565 615	62.84%	4 835	2 491 580	61 953
39 Trade, Industry and Competition	9 736 573	1 923 917	8 911 612	82.06%	23 774	10 859 303	1 122 730
40 Transport	66 703 368	1 462 716	67 669 422	97.88%	5 791	69 137 929	2 434 561
41 Water and Sanitation	16 910 080	3 607 301	10 528 115	56.79%	4 404 253	18 539 669	1 629 589
Total	1 810 606 948	566 570 940	1 351 977 816	68.99%	15 505 515	1 959 687 045	149 080 097

National spending: Transfers to provinces and local government

R million	2022/23				
	Budget estimate	transfers to provinces 1)	% of budget	transfers to local government 2)	% of budget
3 Cooperative Governance <i>of which: local government equitable share</i>	111 364.9	145.3	0.1%	105 636.3	94.9%
	–	–		87 311.5	78.4%
8 National Treasury	33 939.2	–		2 479.6	2.2%
13 Public Works and Infrastructure	8 547.3	857.9	0.8%	778.4	0.7%
16 Basic Education	29 560.2	23 007.7	20.7%	–	
18 Health	64 531.0	56 251.5	50.5%	–	
29 Agriculture, Land Reform and Rural Development	17 287.7	2 294.4	2.1%	–	
33 Human Settlements	33 024.7	18 702.5	16.8%	11 708.2	10.5%
34 Mineral Resources and Energy	10 345.7	–		2 341.9	2.1%
37 Sport, Arts and Culture	6 295.1	2 176.1	2.0%	–	
40 Transport	69 125.9	18 346.6	26.5%	6 127.9	5.5%
41 Water and Sanitation	18 539.7	–		6 222.4	5.6%
Total appropriation by vote	1 057 028.6	121 782.0	11.5%	135 294.7	12.8%
Total	1 965 256.5	682 538.8	34.7%	150 629.6	7.7%
Contingency reserve	10 000.0	–		–	
Main budget expenditure	1 975 256.5	682 538.8		150 629.6	

1) Includes the equitable share and conditional grants allocated to provinces.

2) Includes local government equitable share and conditional grants allocated to local government, as well as gen

3) Budget estimate adjusted for function shifts.

4) Provincial equitable share excluding conditional grants to provinces.

Provincial funding

R million	2021/22	2022/23			2023/24	2024/25	PES annual average increase
		Medium-term estimates	Conditional grants	Total transfers	Medium-term estimates		
Eastern Cape	70 950	72 231	13 850	86 081	69 779	71 842	0.42%
Free State	30 342	31 107	8 737	39 845	30 109	31 109	0.84%
Gauteng	115 621	120 042	26 503	146 545	116 264	120 760	1.46%
KwaZulu-Natal	111 592	114 509	25 041	139 551	110 786	114 373	0.82%
Limpopo	62 556	64 056	10 741	74 796	62 073	64 127	0.83%
Mpumalanga	44 543	45 962	9 060	55 022	44 595	46 220	1.24%
Northern Cape	14 469	14 942	4 795	19 737	14 434	14 895	0.97%
North West	38 294	39 540	8 568	48 108	38 298	39 702	1.21%
Western Cape	56 467	58 367	14 016	72 383	56 810	58 991	1.47%
Total	544 835	560 757	121 782	682 539	543 149	562 018	1.04%

Source: National Treasury

Over the medium term, provincial equitable share allocations include:

- R24.6 billion to address shortages of teachers and learner support material
- R15.6 billion to fund COVID-19 responses and reduce the effect of budget reductions on essential medical goods and services
- R12.7 billion to hire education and other assistants in schools as part of the presidential employment initiative
- R988 million to ensure that social welfare budgets grow by inflation
- R13.9 billion was added in 2022/23 to help fund the costs of the non-pensionable cash gratuity for employees from the 2021 wage agreement

Medium-term allocations to conditional grants include:

- R3.3 billion to fund medical interns and community services doctors requiring placement through the human resources and training grant
- R1 billion added to the district health programmes grant in 2022/23 to help provinces continue rolling out COVID-19 vaccines R809 million in 2022/23 to assist in funding the cash gratuity for employees flowing from the 2021 wage agreement
- R873 million added to the human settlements development grant to rehabilitate houses, R471 million to the education infrastructure grant to repair schools and R784 million to the provincial roads maintenance grant to repair flood-damaged roads in KwaZulu-Natal

Provincial conditional grants: increases from 2021/22

R million	2020/21 Revised estimate	2021/22 Revised estimate	2022/23 Medium- term estimates	2022/23 Change since 2021/22	2023/24 Medium-term estimates	2024/25
Direct conditional grants						
Comprehensive agricultural support programme	1 191	1 558	1 599	42	1 618	1 691
Ilima/Letsema projects	423	597	610	13	620	648
Education infrastructure	1 153	11 689	12 384	695	13 094	13 342
National school nutrition programme	8 787	8 115	8 508	393	8 879	9 278
District health programmes grant	27 222	27 753	29 023	1 270	26 866	28 072
Health facility revitalisation	7 666	6 435	6 780	344	7 120	7 361
Human resources and training grant	6 315	4 298	5 449	1 151	5 479	5 367
National tertiary services	4 309	13 708	14 306	598	14 024	14 654
Human settlements development	14 013	13 403	14 256	853	14 944	15 118
Informal settlements upgrading partnership	14 892	3 890	4 121	231	4 303	4 496
Community library services	–	1 496	1 573	77	1 571	1 641
Provincial roads maintenance	10 467	11 937	11 256	-680	13 330	13 613
Public transport operations	6 750	7 121	7 090	-30	7 403	7 735
Other direct grants	4 405	4 363	4 826	464	4 910	5 121
Total direct conditional grants	107 594	116 361	121 782	5 421	124 161	128 138
Indirect transfers	4 160	3 954	4 612	659	4 550	4 015
School infrastructure backlogs	2 415	2 397	2 403	7	2 079	2 172
National health insurance indirect	1 710	1 557	2 209	652	2 471	1 843

Source: National Treasury

Local government: Transfers

	2021/22	2022/23	2022/23	2023/24	2024/25	MTEF total
R million	Adjusted Budget	Medium-term estimates	Change since 2021/22	Medium-term estimates		
Equitable share and related	77 999	87 311	9 312	94 087	101 486	282 885
General fuel levy sharing with metros	14 617	15 335	718	15 433	16 127	46 895
Direct conditional grants	44 969	47 983	3 014	50 994	52 534	151 511
Municipal infrastructure	15 593	16 842	1 249	17 595	18 385	52 822
Integrated urban development	1 009	1 085	76	1 123	1 173	3 381
Urban settlements development	7 405	7 352	-52	7 676	8 021	23 050
Informal settlements upgrading partnership	3 945	4 181	235	4 365	4 561	13 106
Integrated national electrification programme	2 003	2 119	116	2 212	2 311	6 642
Public transport network	5 175	6 013	838	6 689	7 720	20 422
Water services infrastructure	3 620	3 701	81	3 864	4 038	11 603
Regional bulk infrastructure	2 237	2 521	284	2 892	2 763	8 176
Other direct grants	3 982	4 169	187	4 578	3 562	12 309
Total direct transfers	137 585	150 630	13 044	160 514	170 147	481 291
Indirect transfers	7 727	8 055	328	8 481	8 862	25 399
Integrated national electrification programme (Eskom)	2 824	3 588	764	3 821	3 993	11 402
Regional bulk infrastructure	3 857	3 455	-402	3 607	3 769	10 832
Other indirect grants	1 046	1 012	-34	1 053	1 100	3 165

Source: National Treasury

Changes to the local government allocations include:

- R1.2 billion increase in 2022/23 from 2021/22 to the Municipal infrastructure grant
- R838 million increase in 2022/23 from 2021/22 to the Public transport network grant

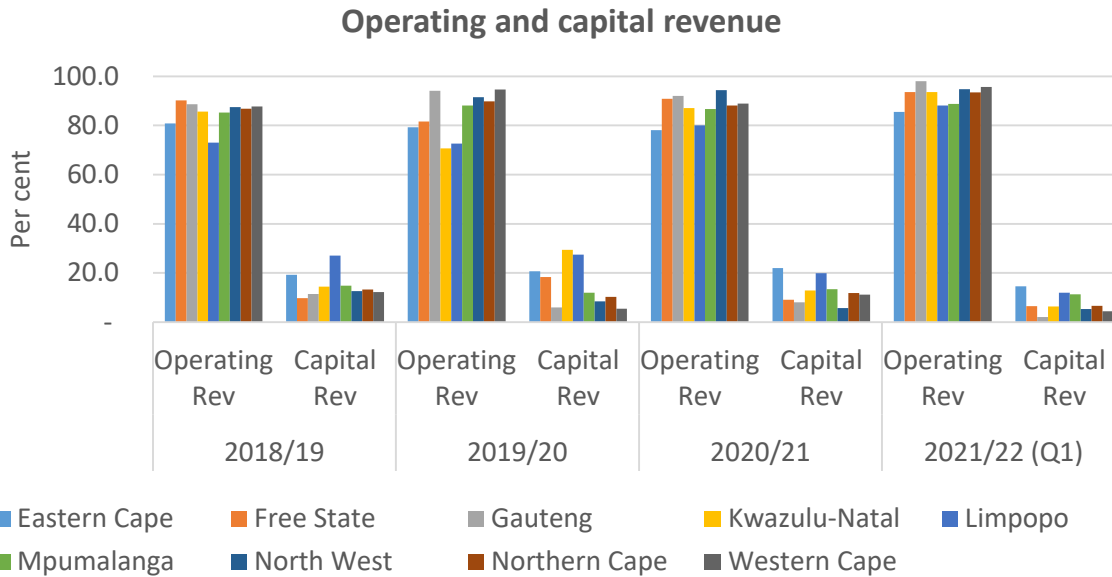
Amendments to the 2021 MTEF include:

- The local government equitable share has been increased by R4.2 billion in 2022/23, R10.5 billion in 2023/24 and R14.2 billion in 2024/25 to expand the provision of free basic services to poor households
- The public transport network grant allocations are reduced by R754 million in 2022/23 and R105 million in 2023/24, and increased by R621 million in 2024/25. These changes are made to align with the revised implementation plan of phase 2 of the MyCiTi project for the City of Cape²Town

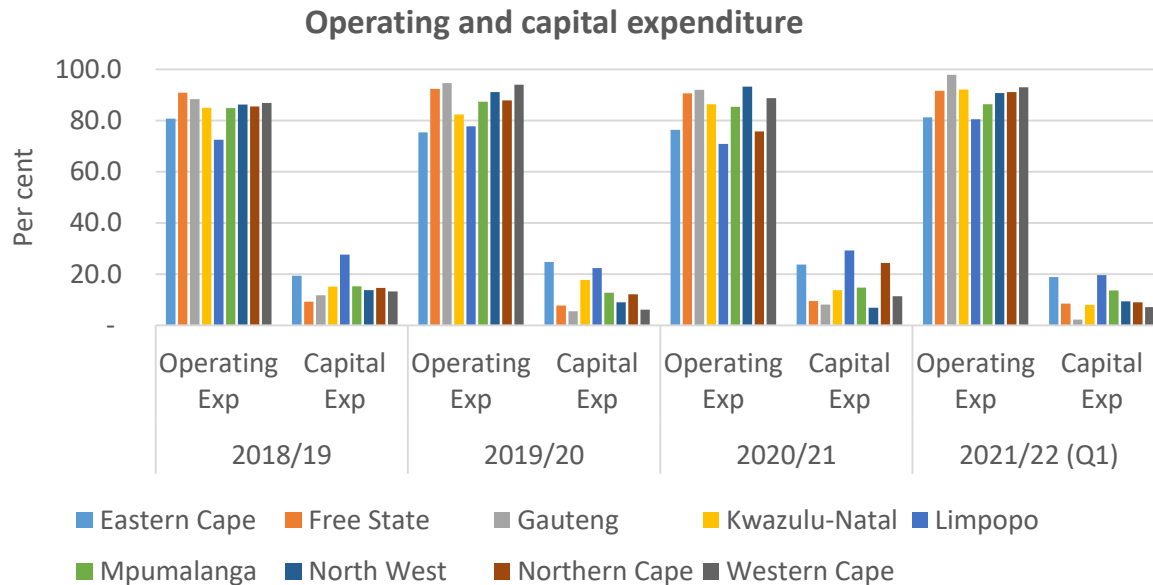
The roll out of basic services to indigent households

- While Budget 2022, increases the local government equitable share by an average annual rate of 10.3 per cent it does not guarantee that the needs of indigent households will be sufficiently met
- National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities themselves
- Poor rural municipalities, however, receive most of their revenue from transfers, while urban municipalities raise the majority of their own revenues
- Research by the Public Affairs Research Institute finds that:
 - The challenges faced by local government are systemic and are the direct result of the unrealistic assumptions that were made in designing the funding model in the 1998 White Paper on Local Government
 - The White Paper assumed that local governments could raise over 70 per cent of their financing requirements through services charges and also made them responsible for providing affordable services to households

LG: Capital and operating revenue trends



- LG are self-financing with operating revenue, accounting for more than 85 per cent on average
- Service charges and property rates are the two largest sources of operating revenue
- Poor revenue management and inability to efficiently raise own revenue is one of the biggest causes of financial distress to local government
- A number of municipalities fail to deliver services effectively due to poor governance, financial mismanagement and insufficient capacity
- Key issues in municipal budgets
 - Growing grant dependence
 - Inadequate maintenance expenditure
 - Outstanding consumer debts
 - Under-pricing of services



Monitoring performance on service delivery

Example of reporting

Understanding conditional grant allocation criteria

Monitoring of conditional grants: Information available to Parliament

- Example: Comprehensive Agriculture Support Programme (CASP): The key objective of CASP is to provide post-settlement support to targeted beneficiaries of land reform and redistribution and other producers who have acquired land through private means and are engaged in value-adding enterprises domestically, or involved in exports
- The table shows the information that was available for the first six months of 2021/22

Provinces	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
% Provincial Actual payments September 2021	28%	20%	6%	62%	19%	18%	27%	8%	63%
Number of projects	80	25	122	58	26	30	17	54	25
Number of projects completed	22	0	0	0	2	4	0	0	0
Number of beneficiaries	2 342	810	2 369	1 310	334	123	663	1 706	1 054
Number of beneficiaries supported	749	259	758	419	107	39	212	546	337
Number of farmers targeted									
Number of farmers supported	230	992	26	626	119	88	0	0	35
Number of farmers accessing markets	230	0	26	544	101	57	0	0	35
Number of jobs targeted	576	336	185	1150	645	289	201	607	535
Actual number of jobs created	188	29	37	575	92	18	0	0	678
Number of pre-conditions, workshops follow-ups and final audits	8	3	48	5	20	5	18	-	-
Number of monitoring visits planned	80	25	122	58	26	17	17	54	25
Number of monitoring visits conducted	0	4	0	0	16	15	0	20	0

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD)

Understanding conditional grants: Public transport network grant

	Oper-ational public transport system	Grant spent in 2020/21	Eligible for incentive	Coverage of direct costs from farebox	Average weekday passenger trips (% of population)	City's contri-bution (% of property rates)	Incentive allocation for 2022/23 (R 000)
Minimum threshold	Yes	80%		35.0%	1.0%	2.0%	
Buffalo City	No	0%	No	0.0%	0.00%	0.0%	–
City of Cape Town	Yes	96%	Yes	24.3%	1.10%	9.2%	159 469
City of Johannesburg	Yes	100%	Yes	18.3%	1.20%	3.9%	70 331
City of Tshwane	Yes	95%	Yes	6.9%	0.00%	1.6%	–
Ekurhuleni	Yes	100%	Yes	3.8%	0.10%	0.0%	–
eThekwini	No	100%	No	0.0%	0.00%	0.0%	–
George	Yes	89%	Yes	18.0%	5.10%	5.0%	54 095
Mangaung	No	100%	No	0.0%	0.00%	0.0%	–
Mbombela	No	100%	No	0.0%	0.00%	0.0%	–
Msunduzi	No	100%	No	0.0%	0.00%	0.0%	–
Nelson Mandela Bay	Yes	61%	No	6.7%	0.20%	2.4%	–
Polokwane	No	80%	No	0.0%	0.00%	0.0%	–
Rustenburg	No	96%	No	0.0%	0.00%	0.0%	–
Total							283 895

Source: National Treasury

In summary

- National departments must monitor information on financial and non-financial performance of programmes partially or fully funded by an allocation made in the DORA
- The mandates of the different spheres of government are addressed by the division of revenue considering the demographic social and economic needs of the environment
- Relevant up to date official statistical data are, however, not always available to inform policy and funding decisions
- After considering several funding needs in terms of capacity, service delivery and economic growth, several amendments have been made to the 2021 MTEF. These include amendments to:
 - Equitable shares
 - Conditional grant

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Thank you

National spending: Conditional grants

Conditional grants to provinces: 2018/19 to 2024/25¹

R million	Audited outcome			Revised estimate	Medium-term expenditure estimates		
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
3 Cooperative Governance	139.0	466.4	138.5	140.3	145.3	145.8	152.4
13 Public Works and Infrastructure	824.0	868.2	832.5	836.9	857.9	861.2	899.9
16 Basic Education	18 181.0	19 079.0	19 238.0	21 935.7	23 007.7	24 150.8	24 895.0
18 Health	41 364.1	45 863.4	52 112.5	52 462.2	56 251.5	54 183.4	56 170.8
29 Agriculture, Land Reform and Rura	2 845.9	2 157.5	1 688.5	2 238.0	2 294.4	2 324.9	2 429.3
33 Human Settlements	18 990.0	19 572.3	15 342.5	17 603.8	18 702.5	19 586.5	19 969.8
37 Sport, Arts and Culture	2 011.1	2 121.2	1 520.9	2 086.9	2 176.1	2 174.8	2 272.4
40 Transport	17 026.0	17 768.2	17 216.9	19 057.4	18 346.6	20 733.3	21 348.6
Total	101 667.1	107 896.2	108 090.3	116 361.2	121 782.0	124 160.6	128 138.1

1. Details provided in the Division of Revenue Bill (2022).

Conditional grants to municipalities: 2018/19 to 2024/25

R million	Audited outcome			Revised estimate	Medium-term expenditure estimates		
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
3 Cooperative Governance	16 462.3	15 806.2	15 578.4	16 960.3	18 324.8	19 411.1	19 947.6
8 National Treasury	1 508.8	1 584.0	1 481.9	2 366.2	2 479.6	2 580.0	1 801.9
13 Public Works and Infrastructure	692.9	730.0	748.0	758.7	778.4	781.4	816.5
33 Human Settlements	11 343.9	11 802.5	10 738.4	11 517.7	11 708.2	12 224.2	12 773.2
34 Mineral Resources and Energy	2 119.5	2 086.9	1 551.3	2 224.0	2 341.9	2 436.1	2 553.9
40 Transport	6 394.2	6 484.0	4 497.5	5 284.4	6 127.9	6 804.5	7 840.8
41 Water and Sanitation	6 740.3	5 697.8	5 373.2	5 857.7	6 222.4	6 756.3	6 800.5
Total	45 261.8	44 191.5	39 968.7	44 969.0	47 983.2	50 993.7	52 534.4

The provincial equitable share (PES)

- The equitable share is the main source of revenue through which provinces are able to meet their expenditure responsibilities. For each year of the 2021 MTEF, provincial equitable shares amount to: R523.7 billion, R524.1 billion and R525.3 billion
- The current PES is allocated through a formula using objective data to reflect the demand for services across all nine provinces
- It consists of six components that account for the relative demand for services and take into consideration the change of demographics in each of the provinces. The formula components are: (DORB p.75-90)
 - An education component (48 per cent), based on the size of the school-age population (ages five to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools
 - A health component (27 per cent), based on each province's risk profile and health system caseload
 - A basic component (16 per cent), derived from each province's share of the national population
 - An institutional component (5 per cent), divided equally between the provinces.
 - A poverty component (3 per cent), based on income data. This component reinforces the redistributive bias of the formula
 - An economic activity component (1 per cent), based on regional GDP

The local government equitable share (LGES)

- The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere of government
- The framework refers to all resources available to municipalities to meet their expenditure responsibilities
- National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities themselves through their substantial revenue-raising powers
 - Poor rural municipalities, however, receive most of their revenue from transfers, while urban municipalities, although not always effective, raise the majority of their own revenues
- Funds raised by national government are transferred to municipalities through conditional and unconditional grants
- Over the 2021 MTEF period, R432.6 billion will be transferred directly to local government and a further R23.7 billion has been allocated to indirect grants.
- Direct transfers to local government over the medium term account for 9.4 per cent of national government's non-interest expenditure
- When indirect transfers are added to this, total spending on local government increases to 10 per cent of national non-interest expenditure