REPUBLIC OF SOUTH AFRICA

DIVISION OF REVENUE BILL

(As amended by the Select Committee on Finance (National Council of Provinces))
(The English text is the official text of the Bill)

(MINISTER OF FINANCE)

[B 5D—2002]

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BILL

To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2002/2003 financial year; to provide for reporting requirements for allocations pursuant to such division; to provide for the withholding and the delaying of payments; to provide for liability for costs incurred in litigation in violation of the principles of co-operative governance and intergovernmental relations; and to provide for matters connected therewith.

PREAMBLE

WHEREAS section 214(1) of the Constitution requires an Act of Parliament to provide for—

(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;

(b) the determination of each province's equitable share of the provincial share of that revenue; and

(c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.

BE IT THEREFORE ENACTED by the Parliament of the Republic of South Africa, as follows:—

Definitions

1. In this Act, unless the context indicates otherwise, a word to which a meaning has been assigned in the Public Finance Management Act bears the same meaning, and—

(i) "accredited bank account" means—

(a) in respect of a province, a bank account of the provincial Revenue Fund which the head official of the provincial treasury has certified to the National Treasury as the bank account into which allocations in terms of this Act must be deposited; and

(b) in respect of a municipality, a bank account of a municipality which the municipal manager has certified to the national accounting officer responsible for local government as the bank account into which allocations in terms of this Act must be deposited;

(ii) "Director-General" means the Director-General of the National Treasury;

(iii) "head official of the provincial treasury" means the head official of the provincial department responsible for financial matters in the province;

(iv) "Intergovernmental Fiscal Relations Act" means the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);

(v) "municipality" means a municipality established in terms of the Municipal Structures Act;

(vi) "municipal accounting officer" means the municipal manager of a municipality or such other person who has been instructed or delegated by the council to perform the functions of an accounting officer;

(vii) "municipal public entity" means—
a board, commission, company, corporation, fund, utility or other entity which is—

(a) a juristic person under the ownership control of a municipality;
(b) established pursuant to a resolution of the council or in terms of legislation;
(c) fully or substantially funded either from municipal funds or by way of a tax, levy or other money imposed in terms of legislation; and
(d) accountable to the municipality;

(viii) "Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

(ix) "next financial year" means the financial year commencing on 1 April 2003 and ending on 31 March 2004;

(x) "payment schedule" means an instalment schedule which sets out—
(a) the amount of each instalment of an equitable share or other allocation to be transferred to a province or municipality for the financial year;
(b) the date on which each such instalment must be paid; and
(c) to whom, and to which accredited bank account, each such instalment must be paid;

(xi) "prescribe" means prescribe by regulation in terms of section 33;

(xii) "Public Finance Management Act" means the Public Finance Management Act, 1999 (Act No. 1 of 1999);

(xiii) "receiving officer"—
(a) in respect of a Schedule 3 allocation transferred to a province, means the head official of a provincial treasury acting with the concurrence of the accounting officer of the provincial department receiving the allocation;
(b) in respect of a Schedule 4 allocation transferred to a province, means the accounting officer of a provincial department which receives such allocation; or
(c) in respect of a Schedule 5 allocation transferred to a municipality, means the municipal accounting officer of that municipality;

(xiv) "SALGA" means the national organisation recognised in terms of section 2(1)*(a)* of the Organised Local Government Act, 1997 (Act No. 52 of 1997);

(xv) "transferring national officer" means the accounting officer responsible for a national department which transfers to a province or municipality a Schedule 3, 4 or 5 allocation, but excludes the accounting officer of the National Treasury in respect of an allocation listed in those Schedules and which is on the vote of the National Treasury;

(xvi) "transferring provincial officer" means the accounting officer responsible for a provincial department which receives a Schedule 4 or 5 allocation for the purpose of transferring it to a municipality in the relevant province.

PART I

OBJECTS OF ACT

Promoting co-operative governance in intergovernmental budgeting

2. The objects of this Act are to—
(a) provide for the equitable division of revenue raised nationally among the three spheres of government;
(b) promote co-operative governance in the budget allocation and transfer process;
(c) promote better co-ordination between policy, planning, budget preparation and execution processes;
(d) promote predictability and certainty in respect of all allocations to provincial and local governments to enable such governments to plan their budgets over a multi-year period;
(e) promote transparency and equity in all allocations, including in respect of the criteria for their division;
(f) promote accountability for the use of public resources by ensuring that all transfers are reflected on the budget of benefiting provincial and local governments, and are subjected to an audit;
(g) ensure that proper financial management is applied; and
(h) ensure that legal proceedings between organs of state of the three spheres of government are avoided.

PART II

EQUITABLE SHARE ALLOCATIONS

Equitable division of revenue raised nationally among spheres of government

3. (1) Anticipated revenue raised nationally in respect of the financial year is divided among the national, provincial and local spheres of government for their equitable share as set out in Column A of Schedule 1.

(2) A recommended division of anticipated revenue for the next financial year and the 2004/2005 financial year, and which is subject to the provisions of the annual Division of Revenue Act in respect of those financial years, is set out in Column B of Schedule 1.

(3) Despite subsection (2), the Minister may, in respect of the next financial year and until the commencement of that financial year's Division of Revenue Act, determine that an amount not exceeding 45 per cent of the recommended division for the next financial year, be transferred as a direct charge against the National Revenue Fund to each province and to a municipality contemplated in section 5(1).

Equitable division of provincial share among provinces

4. (1) Each province's equitable share of the provincial share of anticipated revenue raised nationally in respect of the financial year is set out in Column A of Schedule 2.

(2) A recommended division of anticipated revenue for each province for the next financial year and the 2004/2005 financial year and which is subject to the provisions of the annual Division of Revenue Act for those financial years, is set out in Column B of Schedule 2.

(3) Each province's equitable share contemplated in subsection (1) must be transferred to the province in weekly instalments in accordance with a payment schedule determined by the National Treasury after consultation with the head officials of the provincial treasuries.

(4) Despite subsection (3), the National Treasury may, on such conditions as it may determine, advance funds to a province in respect of its equitable share contemplated in subsection (1), which have not yet fallen due for transfer in accordance with a payment schedule referred to in subsection (3) in respect of that province.

(5) The advances contemplated in subsection (4) must be set-off against transfers to the province which would otherwise become due in terms of that payment schedule.

Equitable share for local government

5. (1) The national accounting officer responsible for local government must, not later than 14 days after this Act takes effect, determine the allocation for a municipality in respect of the equitable share for the local sphere of government set out in Schedule 1 and such determination must be published by the Minister in the *Gazette*.

(2) The criteria for determining the division contemplated in subsection (1) must be in accordance with a policy framework approved by the National Treasury after consultation with SALGA and must take into account the fiscal capacity of each municipality with a view to the prioritisation of the funding of municipalities which bear primary responsibility for basic service delivery.

(3) Despite subsection (1), the national accounting officer responsible for local government may, after consultation with the relevant member of the executive council responsible for local government and in accordance with a prescribed procedure, amend, in respect of a category B or C municipality, a determination made in terms of that subsection if, as a result of information obtained after that determination, there is reason to believe that such an amendment will ensure better compliance with the criteria contemplated in subsection (2).

(4) The national accounting officer responsible for local government must, in the determination contemplated in subsection (1), also indicate the recommended division of anticipated revenue for the next financial year and the 2004/2005 financial year.

(5) The allocation to each municipality contemplated in subsection (1) must be transferred to that municipality in quarterly instalments in accordance with a payment schedule determined by the national accounting officer responsible for local government

after consultation with the National Treasury: Provided that such instalments are transferred not later than the end of May, August, November and February.

(6) Despite subsection (5), the national accounting officer responsible for local government may, after consultation with the National Treasury, on such conditions as he or she may determine, advance funds to a municipality in respect of its equitable share contemplated in subsection (1), which have not yet fallen due for transfer in accordance with a payment schedule referred to in subsection (5) in respect of that municipality.

(7) The advances contemplated in subsection (6) must be set-off against transfers to the municipality which would otherwise become due in terms of that payment schedule.

Shortfalls and excess revenue

6. (1) If actual revenue raised nationally in respect of the financial year falls short of the anticipated revenue set out in Schedule 1, the national government bears the shortfall.

(2) If actual revenue raised nationally in respect of the financial year is in excess of the anticipated revenue set out in Schedule 1, the excess accrues to the national government and forms part of its equitable share.

(3) Despite subsection (2), the national government may, by means of an adjustments budget or any other appropriation legislation, and additional to the equitable share allocation and the allocations contemplated in Part III, make further allocations to the provincial and local spheres of government from its share of revenue anticipated to be raised nationally.

PART III

OTHER ALLOCATIONS TO PROVINCES AND MUNICIPALITIES

General norms and standards for all allocations

7. (1) Other allocations to provinces and municipalities from the national government's share of anticipated revenue raised nationally are set out in Column A of Schedules 3, 4, 5 and 6 as follows, and must, except in respect of Schedule 6 allocations, be transferred in terms of a payment schedule submitted to the National Treasury not later than 14 days after this Act takes effect:

- *(a)* Schedule 3 contains allocations to provinces for general and nationally assigned functions;
- *(b)* Schedule 4 contains allocations to provinces for specified purposes;
- *(c)* Schedule 5 contains allocations to municipalities for specified purposes; and
- *(d)* Schedule 6 contains allocations-in-kind to provinces and municipalities for designated special programmes.

(2) A recommended division of anticipated allocations to provinces and municipalities for the next financial year and the 2004/2005 financial year and which is subject to the provisions of the Division of Revenue Acts for those financial years is set out in Column B of the Schedules referred to in subsection (1).

(3) Despite subsection (2), the Minister may, in respect of the next financial year and until the commencement of the relevant Division of Revenue Act, determine that an amount not exceeding 45 per cent of the recommended division of the allocation for the next financial year set out in Schedule 3, 4 or 5 be transferred to a province or municipality.

Transfers to public entities

8. Transfers to public or municipal entities in order to perform a function that is normally the responsibility of a province or municipality, must be regarded as being transfers to such province or municipality.

Transfers not listed in Schedules

9. (1) The transfer of an allocation not listed in the Schedules contemplated in Part III of this Act may only be made with the permission of the Minister and must be published in the *Gazette*.

(2) The permission contemplated in subsection (1) may only be granted if—

(a) the allocation is approved by Parliament in an adjustments budget or any other appropriation legislation; or

(b) the allocation is for the purpose of defraying expenditure of an exceptional nature contemplated in section 16 of the Public Finance Management Act.

(3) The transferring national officer must, in respect of an allocation contemplated in subsection (1)—

(a) comply with the reporting and monitoring requirements determined by the National Treasury; and

(b) submit to the National Treasury an assessment of the likelihood for the province or municipality which receives, or benefits from it, to spend it or benefit from it in the financial year.

Provincial infrastructure allocation

10. A Provincial Treasury must, in respect of an allocation for provincial infrastructure listed in Schedule 3, not later than 14 days after this Act takes effect, ensure that the province—

(a) submits to the National Treasury a plan in the format determined by the National Treasury on proposed spending for the financial year, the 2003/2004 financial year and the 2004/2005 financial year; and

(b) indicates to what extent it will match the allocations contemplated in paragraph (a).

Municipal infrastructure allocations

11. (1) Allocations for addressing backlogs in basic municipal infrastructure and services are set out in Schedule 5.

(2) Any allocation contemplated in subsection (1) which is intended, entirely or in part, for the construction, maintenance or rehabilitation of municipal infrastructure—

(a) may only be transferred in terms of a policy framework approved by the National Treasury;

(b) must be accompanied by an indication of the recommended amounts of a similar allocation for the next financial year and the 2004/2005 financial year, unless the National Treasury grants exemption from compliance with this requirement; and

(c) must be in accordance with a distribution formula approved by the National Treasury.

Transfer of assets to municipalities

12. A transferring national officer or a transferring provincial officer may not make any commitment to a municipality, of assets or any other financial resource, including an allocation-in-kind or a future asset transfer, intended, entirely or in part, for the construction, maintenance or rehabilitation of municipal infrastructure without—

(a) that municipality's confirmation that it will take transfer of such asset for operating purposes;

(b) a realistic estimate of the future value of the asset and potential liability, including a reflection of the associated operating costs; and

(c) the approval of the municipal council and the national accounting officer responsible for local government.

Municipal capacity building allocations

13. (1) Any transfer of an allocation aimed at developing and improving municipal systems and the capacity of municipalities to perform functions assigned to them may only be made in terms of a framework determined by the national accounting officer responsible for local government in consultation with the Director-General.

(2) The framework contemplated in subsection (1) must take into account financial management, budgeting and spatial planning considerations.

PART IV

DUTIES OF ACCOUNTING OFFICERS AND TREASURIES

Duties of transferring national officer

14. (1) A transferring national officer must, not later than 14 days after this Act takes effect, certify to the National Treasury that—

(a) grant frameworks, conditions and monitoring provisions are reasonable and do not impose an undue administrative burden on benefiting provincial and local governments receiving an allocation contemplated in Part III;

(b) funds will only be transferred after prescribed information has been provided; and

(c) funds will only be deposited into an accredited bank account of a province or municipality.

(2) A transferring national officer who has not complied with subsection (1) must, unless the National Treasury has, for exceptional reasons, directed otherwise, transfer such funds unconditionally to provinces and municipalities on the basis of the equitable share formula.

(3) Despite anything to the contrary contained in any law, a transferring national officer must, in respect of any allocation contemplated in Part III, as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, within 20 days after the end of each month and in the format determined by the National Treasury, submit to the National Treasury and the relevant executive authority information on—

(a) the amount transferred to a province or municipality in the month reported on and for the financial year up to the end of that month;

(b) the amount of funds delayed or withheld from any province or municipality up to the end of that month and for the financial year up to the end of that month;

(c) the actual expenditure incurred by the province or municipality in the month reported on and for the financial year up to the end of that month in respect of allocations set out in Schedules 4 and 5; and

(d) such other issues as the National Treasury may determine.

Duties of transferring provincial officer

15. (1) A transferring provincial officer must, as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, and in respect of any allocation to be transferred to municipalities, within 15 days after the end of each month and in the format determined by the National Treasury, submit to the transferring national officer, the relevant treasury and executive authority responsible for that department, information on—

(a) the amount transferred to a municipality in the month reported on and for the financial year up to the end of that month;

(b) the amount of funds delayed or withheld from any municipality in the month reported on and for the financial year up to the end of that month;

(c) actual expenditure in respect of that allocation and for the financial year up to the end of that month; and

(d) such other issues as the National Treasury may determine.

(2) A provincial accounting officer intending to make an allocation in the financial year, other than an allocation listed in any Schedule to this Act, to a municipality from the Provincial Revenue Fund must, not later than 14 days after this Act takes effect or such other date determined by the National Treasury, provide the provincial treasury with the prescribed information and the provincial treasury must, not later than the date determined by National Treasury publish such information in the *Provincial Gazette*.

Duties of receiving officer

16. (1) The relevant receiving officer must, in respect of an allocation transferred to—

(a) a province, and as part of the report contemplated in section 40(4)*(c)* of the Public Finance Management Act, within 15 days after the end of each month, submit a report to the relevant provincial treasury, the relevant provincial executive authority and the transferring national officer; and

(b) a municipality, within 10 days after the end of each month, submit a report to the relevant transferring national or provincial officer.

(2) The reports contemplated in subsection (1) must set out—

(a) the amount received by the province or municipality, as the case may be, in the month reported on and for the financial year up to the end of that month;

(b) the amount of funds delayed or withheld from the province or municipality, as the case may be, in the month reported on and for the financial year up to the end of that month;

(c) the actual expenditure by the province or municipality, as the case may be, for the month reported on and for the financial year up to the end of that month in respect of allocations set out in Schedules 4 and 5;

(d) the extent of compliance with the conditions of an allocation and with this Act;

(e) an explanation for any material problems or variations experienced by the province or municipality, as the case may be, regarding an allocation which has been received and a summary of the steps taken to deal with such problems or variations; and

(f) such other issues and information as the National Treasury may determine.

(3) The receiving officer of a municipality which intends to transfer to another municipality an allocation or portion of it transferred to it in terms of this Act must, prior to such transfer, obtain the approval of the National Treasury.

(4) The Minister may prescribe additional duties for the relevant officers of the municipalities contemplated in subsection (3).

Duties of provincial treasury

17. (1) A provincial treasury must, within 22 days after the end of each month and in the format determined by the National Treasury and as part of its consolidated monthly report, report on—

(a) actual transfers received by the province from national departments;

(b) the actual expenditure on such allocations, excluding the allocations set out in Schedule 3, up to the end of that month; and

(c) any problems of compliance with the provisions of this Act by transferring provincial officers and receiving officers, and the steps taken to deal with such problems.

(2) The report contemplated in subsection (1) must, in respect of the provincial infrastructure allocation, include reports for each quarter and be in such format determined by the National Treasury.

Annual report and financial statements

18. (1) The annual report and financial statements contemplated in section 40 of the Public Finance Management Act must, in respect of a department transferring funds for an allocation set out in Schedules 3, 4, 5 and 6, also—

(a) indicate the total amount of that allocation transferred to a province or municipality;

(b) indicate the funds, if any, which were withheld and the reasons for such withholding;

(c) certify that all transfers to a province or a municipality were deposited into the accredited bank account of that province or municipality;

(d) certify that, except in respect of allocations contemplated in Schedule 6, no other funds were spent, directly or through a public or private entity, on a function normally performed by a province or municipality;

(e) indicate to what extent a province or municipality was monitored for compliance with the conditions of an allocation and the provisions of this Act;

(f) indicate to what extent the allocation achieved its purpose and outputs;

(g) indicate the funds, if any, utilised for the administration of the allocation, and whether any portion of the allocation was retained by the transferring department for that purpose; and

(h) indicate any non-compliance with this Act, and the steps taken to deal with such non-compliance.

(2) The annual report and financial statements contemplated in section 40 of the Public Finance Management Act or in any other national legislation or prescribed must, for a department or municipality receiving grants in respect of an allocation set out in Schedules 3, 4 and 5, also—

(a) indicate the total amount of that allocation received and actual expenditure on that allocation;
(b) certify that all transfers in terms of this Act to a province or municipality were deposited into the accredited bank account;
(c) indicate to what extent a province or municipality met the conditions of such an allocation, and complied with the provisions of this Act;
(d) indicate the extent to which its objectives were achieved; and
(e) contain such other information as the National Treasury may determine.

PART V

DUTIES OF DIRECTOR-GENERAL AND AUDITOR-GENERAL

Duties of Director-General

19. The Director-General must, for the purposes of the report contemplated in section 32(2) of the Public Finance Management Act, publish a report on actual transfers of all allocations listed in the Schedules or made in terms of section 9.

Duties of Auditor-General

20. Without derogating from the powers and duties of the Auditor-General in terms of the Constitution and any other law, the Auditor-General must, in the audit report on the financial statements of a department or municipality on the allocations set out in Part III, report on—
(a) the extent of compliance with this Act by the Director- General, transferring national officers, transferring provincial officers and receiving officers;
(b) whether there was compliance with the certification and reporting requirements of this Act;
(c) the evaluation of evidence supporting the amounts and disclosures in monthly and annual reports contemplated in this Act;
(d) whether a transferring national officer or transferring provincial officer made unauthorised transfers to any province or municipality or to any entity under the control of a province or municipality; and
(e) whether the monitoring of the receiving government's compliance with allocation conditions was undertaken in terms of the provisions contemplated in this Act.

PART VI

GENERAL

Delaying of payments

21. (1) Subject to subsection (2), the transferring national officer may, after consultation with the National Treasury and, if the National Treasury deems it appropriate, the relevant provincial treasury and for a period not exceeding 30 days, delay the payment of an allocation in terms of Part III, if—
(a) the province or municipality which receives such allocation, or benefits from it, does not comply with the conditions to which the allocation is subject; or
(b) expenditure on previous transfers reflects significant underspending for which no satisfactory explanation is given.

(2) The National Treasury may allow the transfer to be delayed for a period exceeding 30 days in order to ensure compliance with the conditions to which an allocation is subject or to ensure significant spending on that allocation.

(3) The transferring national officer must, in the monthly reports contemplated in this Act, inform the National Treasury of the reasons for the decision to delay the payment of an allocation and of the steps taken to deal with the causes of the payment delay.

Withholding of payments

22. (1) The National Treasury may withhold the transfer of—
(a) an allocation, or any portion of it, referred to in Schedule 3, 4 or 5; or

(*b*) an allocation in terms of section 9,

if the transferring national officer has submitted to the province or municipality in question, a written report at least 21 days before such allocation is due to be transferred, setting out facts reflecting serious or persistent material breach of the conditions attached to an allocation in terms of section 9 or set out in Part III.

(2) The Minister may, by notice in the *Gazette*, approve that an allocation or a portion of it withheld in terms of subsection (1), be utilised to meet a municipality's outstanding statutory financial commitments.

Reallocation of allocations between municipalities

23. (1) The transferring national or provincial officer may, with the consent of the National Treasury and after consulting with affected municipalities, reallocate an allocation or portion of it from one municipality to another municipality, if the reallocation will reduce the risk of underspending.

(2) The National Treasury must publish such a reallocation in the *Gazette*.

Spending in terms of purpose and subject to conditions

24. (1) Despite anything to the contrary contained in any law, an allocation set out in Schedule 3, 4, 5 or 6 may only be utilised for the purpose stipulated in the relevant Schedule and subject to the prescribed conditions.

(2) The utilisation of an allocation set out in Part III for purposes other than those set out in the Schedules in question, constitutes a breach of the measures established in terms of section 216(1) of the Constitution.

(3) Despite subsections (1) and (2), the National Treasury may authorise a province or municipality to retain and utilise such portion of an allocation contemplated in Part III which remains after the fulfillment of its purpose and compliance with the conditions to which it is subject.

Transfers made in error

25. (1) Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province for the purpose of its Revenue Fund.

(2) A transfer contemplated in subsection (1) must be recovered without delay by the responsible transferring national provincial officer.

(3) The Director-General may direct that the recovery contemplated in subsection (1) be effected by set-off against future transfers to the province, which would otherwise become due in accordance with a payment schedule or any other transfer.

(4) Despite anything to the contrary contained in any law, the transfer of an allocation to a municipality in error is regarded as not legally due to that municipality and must be recovered without delay by the responsible transferring officer.

(5) The national accounting officer responsible for local government may direct that the recovery contemplated in subsection (4) be effected by set-off against transfers to the municipality in question, which would otherwise become due in accordance with any payment schedule.

Transfers to municipalities with weak administrative capacity

26. (1) If the national accounting officer responsible for local government reasonably believes that a Category B municipality is not able effectively to administer an allocation or a portion of it, that officer may transfer such allocation or portion of it to the province in which the municipality is located or, where appropriate, to the relevant Category C municipality, after consultation with the municipalities and province concerned.

(2) Any allocation or portion of it contemplated in subsection (1) must be dealt with by the province or Category C municipality to which it has been transferred in accordance with any directions by the national accounting officer responsible for local government.

(3) The national accounting officer responsible for local government must publish in the *Gazette* information on the transfer of an allocation contemplated in subsection (1).

Funds to follow transfer of functions

27. (1) The transfer of functions from one organ of state to another or from one sphere of government to another and which has financial or planning implications must take place only with the prior written approval of the National Treasury and the national accounting officer responsible for provincial and local government.

(2) The transfer of functions contemplated in subsection (1) must, unless the Minister has directed otherwise, include the transfer of funds available to the transferring organ of state or sphere of government for performing such functions.

(3) Despite anything to the contrary contained in this Act or any other law, the National Treasury may, in accordance with a prescribed procedure and for the purpose of facilitating the transfer of funds contemplated in subsection (2), stop the transfer of funds to the transferring organ of state or sphere of government.

(4) No financial obligation or liability of a national or provincial department may be imposed on a municipality without—

(a) that municipality's prior written acceptance by resolution of its council; and

(b) the prior written approval of the National Treasury and the relevant provincial treasury.

(5) A province must utilise its own funds for any transfer of functions which is in conflict with subsection (1).

(6) Any liability arising from a determination of functions between a category C and B municipality by a province in terms of section 84 or 85 of the Municipal Structures Act, is a liability of that province and not of the national government.

Amendment of payment schedule and transfer mechanism

28. (1) Subject to subsections (2) and (3), a transferring national officer may, in respect of an allocation set out in Part III, amend a payment schedule due to the underspending of the funds or for any other exceptional reason.

(2) The transferring national officer must, not later than seven days before the amendment contemplated in subsection (1), inform the National Treasury and, the National Treasury deems it appropriate, the relevant provincial treasury of the proposed amendment and the reasons for it and must submit the proposed payment schedule to the National Treasury.

(3) The National Treasury may, in the interest of improved accountability or debt and cash-flow management, or on the grounds of substantial non-compliance with any condition to which an allocation is subject, amend any payment schedule of an allocation listed in Schedule 3, 4 or 5, and direct that no transfer of funds be effected through the payment schedule amended in accordance with subsection (1) or that the payment schedule be amended as directed by it.

Exemptions by National Treasury

29. (1) The National Treasury may, on application in writing by a transferring national or provincial officer, exempt in writing a transferring national or provincial officer from the duty to comply with reporting requirements or any other duty regarding an allocation contemplated in Part III or envisaged in section 9: Provided that such exemption may only be granted if such officer satisfies the Director-General that—

(a) the duty cannot be complied with at that stage;

(b) the allocation programme is properly designed; and

(c) the accounting officer is taking steps to comply with this Act.

(2) Any exemption contemplated in subsection (1)—

(a) may only be granted if the accounting officer provides reasons why information was not included in respect of an allocation set out in Part III; and

(b) must set out any condition to which it may be subject, and must be published in the *Gazette*.

Non-compliance with this Act constituting financial misconduct

30. Despite anything to the contrary contained in any law, any serious or persistent non-compliance with this Act, or any condition which an allocation in terms of this Act is subject to, constitutes financial misconduct as envisaged in the Public Finance Management Act.

Liability for costs incurred in violation of principles of co-operative governance and intergovernmental relations

31. (1) An organ of state involved in an intergovernmental dispute regarding any provision of this Act must, before approaching a court to resolve such dispute, make every effort to settle the dispute with the other organ of state in question, including making use of the structures established in terms of the Intergovernmental Fiscal Relations Act.

(2) In the event that a dispute is referred back by a court in accordance with section 41(4) of the Constitution, due to the court not being satisfied that the organ of state approaching the court has complied with subsection (1), the expenditure incurred by that organ in approaching the court is regarded as fruitless and wasteful.

(3) The amount of any such fruitless and wasteful expenditure must, in terms of a prescribed procedure, be recovered without delay from the person who caused the organ of state not to comply with the requirements of subsection (1).

Acts performed before this Act took effect

32. Despite anything to the contrary contained in any law, any act performed before this Act took effect or in accordance with any prescribed requirements in fulfillment of the objects of this Act, must be regarded as having been done in terms of the relevant provisions of this Act.

Regulations

33. The Minister may, by notice in the *Gazette*, make regulations regarding—

(a) anything which must or may be prescribed in terms of this Act; and

(b) any matter which it is necessary to prescribe for the effective implementation of the provisions of this Act and the achievement of its objects.

Repeal of law

34. (1) Subject to subsection (2), the Division of Revenue Act, 2001 (Act No. 1 of 2001), is hereby repealed with effect from the date on which this Act takes effect or from 1 April 2002, whichever is the later.

(2) The repeal of the Act referred to in subsection (1) does not affect any act in terms of that Act which is necessary for the effective implementation of this Act or the performance of any outstanding duties or obligations under or in terms of that Act.

Short title

35. This Act is called the Division of Revenue Act, 2002, and takes effect on a date determined by the President by proclamation in the *Gazette*.

SCHEDULE 1

Equitable division of revenue raised nationally among the three spheres of government

Sphere of Government	Column A	Column B	
	2002/03 Allocation	MTEF Outer Years	
		2003/04	2004/05
	R'000	R'000	R'000
National[1]	164 604 548	177 743 360	192 011 637
Provincial	119 452 086	128 466 030	137 089 096
Local	3 852 478	5 021 478	5 460 546
TOTALS	**287 909 112**	**311 230 868**	**334 561 279**

1. National share includes conditional grants to provincial and local spheres.

SCHEDULE 2

Determination of each province's equitable share of the provincial sphere's share of revenue raised nationally (as a direct charge against the National Revenue Fund)

Province	Column A	Column B	
	2002/03 Allocation	MTEF Outer Years	
		2003/04	2004/05
	R'000	R'000	R'000
Eastern Cape	20 497 693	21 856 381	23 323 512
Free State	7 996 034	8 538 456	9 111 482
Gauteng	18 223 977	19 736 234	21 061 055
KwaZulu-Natal	24 343 129	26 416 263	28 189 838
Mpumalanga	8 428 035	9 221 126	9 839 983
Northern Cape	2 906 556	3 119 832	3 329 070
Northern Province	16 144 950	17 458 872	18 630 775
North West	9 992 807	10 666 189	11 382 062
Western Cape	10 918 905	11 452 677	12 221 319
TOTALS	**119 452 086**	**128 466 030**	**137 089 096**

SCHEDULE 3

GENERAL AND NATIONALLY ASSIGNED FUNCTION ALLOCATIONS TO PROVINCES

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	2004/05
					R'000	R'000	R'000
Health (Vote 16)	(a) National Tertiary Services Grant	To fund tertiary health services in order to ensure equitable access by all citizens.	Nationally Assigned Function Grant to Provinces	Eastern Cape	123 746	190 516	264 303
				Free State	287 424	327 915	373 245
				Gauteng	1 602 981	1 636 902	1 678 625
				KwaZulu-Natal	480 679	537 752	601 853
				Mpumalanga	38 413	39 237	40 249
				Northern Cape	24 062	32 052	40 908
				Northern Province	44 838	45 116	45 545
				North West	34 189	34 107	34 111
				Western Cape	1 030 510	1 049 252	1 072 703
				TOTAL	**3 666 842**	**3 892 849**	**4 151 542**
	(b) Health Professions Training and Development Grant	To support the training and development of health professionals.	Nationally Assigned Function Grant to Provinces	Eastern Cape	70 169	80 182	105 870
				Free State	88 192	87 763	87 565
				Gauteng	528 137	525 570	524 384
				KwaZulu-Natal	160 495	156 178	179 303
				Mpumalanga	30 347	34 456	45 277
				Northern Cape	27 573	29 027	35 875
				Northern Province	34 113	41 827	58 041
				North West	32 058	37 806	51 077
				Western Cape	308 164	306 666	305 974
				TOTAL	**1 279 248**	**1 299 475**	**1 393 366**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
National Treasury (Vote 8)	(a) Provincial Infrastructure Grant	To fund provincial infrastructure like roads, school buildings, health facilities and rural development.	General Conditional Grant to Provinces	Eastern Cape	286 107	428 504	531 220
				Free State	93 913	140 653	173 878
				Gauteng	157 084	235 266	288 841
				KwaZulu-Natal	331 123	495 925	612 837
				Mpumalanga	118 961	178 168	220 569
				Northern Cape	52 997	71 931	81 930
				Northern Province	278 519	417 139	515 245
				North West	135 086	202 320	250 472
				Western Cape	96 210	144 094	177 848
				TOTAL	**1 550 000**	**2 314 000**	**2 852 840**
	(b) Provincial Infrastructure Grant—Flood Rehabilitation	To fund the reconstruction of flood damaged provincial infrastructure.	General Conditional Grant to Provinces	Eastern Cape	70 000	23 000	—
				Free State	58 000	21 000	—
				Mpumalanga	90 000	36 000	—
				Northern Province	182 000	120 000	—
				TOTAL	**400 000**	**200 000**	—

SCHEDULE 4

ALLOCATIONS TO PROVINCES

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	Column B MTEF Outer Years 2004/05
					R'000	R'000	R'000
Agriculture (Vote 25)	(a) Poverty Relief and Infrastructure Development Grant	To address the degradation problems of natural resources and improve the socio-economic status of rural communities.	Conditional Grant	Eastern Cape	6 000	8 000	—
				Free State	1 400	1 800	—
				Gauteng	—	1 600	—
				KwaZulu-Natal	4 000	6 500	—
				Mpumalanga	2 000	3 500	—
				Northern Cape	1 300	1 800	—
				Northern Province	5 000	8 000	—
				North West	3 000	5 000	—
				Western Cape	1 300	1 800	—
				TOTAL	**24 000**	**38 000**	—
Education (Vote 15)	(a) Financial Management and Quality Enhancement Grant	To support financial management and quality-enhancing initiatives in school education.	Conditional Grant	Eastern Cape	41 500	43 367	45 969
				Free State	14 132	14 768	15 654
				Gauteng	27 591	28 833	30 563
				KwaZulu-Natal	49 575	51 805	54 914
				Mpumalanga	16 375	17 112	18 139
				Northern Cape	4 262	4 454	4 721
				Northern Province	35 218	36 803	39 011
				North West	17 946	18 753	19 878
				Western Cape	17 721	18 519	19 630
				TOTAL	**224 320**	**234 414**	**248 479**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
	(b) Early Childhood Development Grant	To provide quality education to poor children eligible for the reception year.	Conditional Grant	Eastern Cape	9 620	16 280	—
				Free State	3 276	5 544	—
				Gauteng	6 396	10 824	—
				KwaZulu-Natal	11 492	19 448	—
				Mpumalanga	3 796	6 424	—
				Northern Cape	988	1 672	—
				Northern Province	8 164	13 816	—
				North West	4 160	7 040	—
				Western Cape	4 108	6 952	—
				TOTAL	**52 000**	**88 000**	—
	(c) HIV/Aids (Lifeskills Education) Grant	To promote HIV/Aids education in primary and secondary schools.	Conditional Grant	Eastern Cape	26 270	21 719	23 111
				Free State	8 946	7 396	7 870
				Gauteng	17 466	14 440	15 366
				KwaZulu-Natal	31 382	25 945	27 608
				Mpumalanga	10 366	8 570	9 119
				Northern Cape	2 698	2 231	2 374
				Northern Province	22 294	18 432	19 613
				North West	11 360	9 392	9 994
				Western Cape	11 218	9 275	9 869
				TOTAL	**142 000**	**117 400**	**124 924**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
Health (Vote 16)	(a) Hospital Revitalisation Grant	To transform and modernise hospitals in line with the national planning framework.	Conditional Grant	Eastern Cape	81 000	84 645	89 724
				Free State	17 000	17 765	18 831
				Gauteng	105 000	109 725	116 308
				KwaZulu-Natal	90 000	94 050	99 693
				Mpumalanga	45 000	47 025	49 847
				Northern Cape	10 000	10 450	11 077
				Northern Province	92 000	96 140	101 908
				North West	50 000	52 250	55 385
				Western Cape	30 000	31 350	33 231
				TOTAL	**520 000**	**543 400**	**576 004**
	(b) Pretoria Academic Hospital Grant	To fund the construction and development of the Pretoria Academic Hospital.	Conditional Grant	Gauteng	70 000	90 000	—
				TOTAL	**70 000**	**90 000**	—
	(c) HIV/Aids Health Grant	To expand access to voluntary HIV counselling and testing, home-based care, prevention of mother-to-child programmes and other HIV/Aids health-related matters.	Conditional Grant	Eastern Cape	21 130	37 947	56 751
				Free State	13 953	23 235	31 775
				Gauteng	23 253	40 706	58 863
				KwaZulu-Natal	39 260	63 523	88 996
				Mpumalanga	15 606	25 621	34 852
				Northern Cape	5 727	8 225	10 044
				Northern Province	15 371	28 228	43 050
				North West	14 149	24 449	34 827
				Western Cape	8 760	14 642	21 322
				TOTAL	**157 209**	**266 576**	**380 480**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
	(d) Integrated Nutrition Programme Grant	To feed primary school children, facilitate nutrition education and health promotion.	Conditional Grant	Eastern Cape	131 838	131 838	139 748
				Free State	39 394	39 394	41 758
				Gauteng	54 673	54 673	57 953
				KwaZulu-Natal	132 471	132 471	140 419
				Mpumalanga	39 728	39 728	42 112
				Northern Cape	10 096	10 096	10 702
				Northern Province	106 032	106 032	112 394
				North West	39 390	39 390	41 754
				Western Cape	28 789	28 789	30 516
				TOTAL	**582 411**	**582 411**	**617 356**
	(e) Hospital Management and Quality Improvement Grant	Improving management in hospitals and support quality of care interventions.	Conditional Grant	Eastern Cape	9 000	14 000	14 840
				Free State	11 000	11 000	11 660
				Gauteng	34 000	28 000	29 680
				KwaZulu-Natal	19 000	17 000	18 020
				Mpumalanga	8 000	12 000	12 720
				Northern Cape	7 000	8 000	8 480
				Northern Province	9 000	12 000	12 720
				North West	8 000	11 000	11 660
				Western Cape	19 000	17 000	18 020
				TOTAL	**124 000**	**130 000**	**137 800**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
Housing (Vote 17)	(a) Housing Subsidy Grant	To finance subsidies under the national housing programme.	Conditional Grant	Eastern Cape	571 485	627 253	581 876
				Free State	283 097	316 064	374 679
				Gauteng	801 940	896 830	1 085 699
				KwaZulu-Natal	708 759	778 263	727 186
				Mpumalanga	242 038	268 228	288 030
				Northern Cape	75 809	83 807	86 900
				Northern Province	381 767	417 204	359 305
				North West	302 001	337 769	409 400
				Western Cape	372 778	412 480	433 357
				TOTAL	**3 739 674**	**4 137 898**	**4 346 432**
	(b) Human Resettlement and Redevelopment Pilot Programme Grant	To fund projects aimed at improving the quality of the environment in urban communities.	Conditional Grant	Eastern Cape	10 000	11 000	11 660
				Free State	7 500	8 500	9 010
				Gauteng	23 000	21 000	22 260
				KwaZulu-Natal	25 000	26 000	27 560
				Mpumalanga	6 000	7 000	7 420
				Northern Cape	2 500	3 000	3 180
				Northern Province	11 000	11 000	11 660
				North West	6 000	8 000	8 480
				Western Cape	13 000	13 500	14 310
				TOTAL	**104 000**	**109 000**	**115 540**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
Provincial and Local Govern-ment (Vote 5)	(a) Local Government Support Grant	To assist municipalities experiencing severe financial problems to restructure their financial positions and organisations.	Conditional Grant	Eastern Cape	31 200	29 350	26 300
				Free State	26 450	24 650	22 100
				Gauteng	9 450	8 450	7 600
				KwaZulu-Natal	26 450	24 700	22 150
				Mpumalanga	12 750	12 450	11 400
				Northern Cape	15 550	15 100	13 550
				Northern Province	15 100	14 650	13 350
				North West	16 550	15 550	14 000
				Western Cape	16 500	15 100	13 350
				TOTAL	**170 000**	**160 000**	**143 800**
	(b) Provincial Consolidated Municipal Infrastructure Programme (CMIP) Grant	To provide support to manage the CMIP effectively and to build the capacity of municipalities to ensure the sustainability of CMIP projects.	Conditional Grant	Eastern Cape	27 266	28 902	30 637
				Free State	8 609	9 126	9 673
				Gauteng	19 294	20 452	21 679
				KwaZulu-Natal	14 322	15 181	16 092
				Mpumalanga	5 999	6 358	6 740
				Northern Cape	2 509	2 660	2 820
				Northern Province	10 901	11 555	12 248
				North West	7 221	7 654	8 113
				Western Cape	8 357	8 858	9 390
				TOTAL	**104 478**	**110 747**	**117 392**

Vote	Name of Allocation	Purpose	Type of Allocation	Province	Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
Social Development (Vote 18)	(a) Financial Management and Improvement of Social Security System Grant	To improve the financial management, administration and functioning of social security system.	Conditional Grant	Eastern Cape	1 200	—	—
				Free State	1 200	—	—
				Gauteng	1 200	—	—
				KwaZulu-Natal	1 200	—	—
				Mpumalanga	1 200	—	—
				Northern Cape	1 200	—	—
				Northern Province	1 200	—	—
				North West	1 200	—	—
				Western Cape	1 200	—	—
				TOTAL	**10 800**	—	—
	(b) HIV/Aids (Community-based care) Grant	To advance the development of Community-based care (CBC) programmes in communities.	Conditional Grant	Eastern Cape	4 697	6 488	6 887
				Free State	6 510	8 993	9 546
				Gauteng	6 836	9 443	10 023
				KwaZulu-Natal	8 462	11 690	12 410
				Mpumalanga	6 928	9 571	10 160
				Northern Cape	2 604	3 597	3 818
				Northern Province	3 069	4 240	4 500
				North West	5 348	7 387	7 841
				Western Cape	2 046	2 826	3 000
				TOTAL	**46 500**	**64 235**	**68 185**

SCHEDULE 5

RECURRENT ALLOCATIONS TO LOCAL GOVERNMENT

Vote	Name of Allocation	Purpose	Type of Allocation		Column A	Column B	
					2002/03 Allocation	MTEF Outer Years	
						2003/04	2004/05
					R'000	R'000	R'000
National Treasury (Vote 8)	Financial Management Grant	To promote and support reforms to municipal budgeting and financial management practices and implementation of the Municipal Finance Management Act.	Conditional Grant		111 000	101 000	79 000
	Local Government Restructuring Grant	To modernise large budget municipalities and to make them more effective and efficient service delivery authorities.	Conditional Grant		300 000	315 000	342 900
				TOTAL	**411 000**	**416 000**	**421 900**

Vote	Name of Allocation	Purpose	Type of Allocation		Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	2004/05
Provincial and Local Government (Vote 5)	Municipal Systems Improvement Grant	To support municipalities in implementing new systems as provided in the Municipal Systems Act, 2000, and LDO/ Spatial planning activities.	Conditional Grant		93 290	100 418	132 243
	Local Government Transition Grant	To assist municipalities with once-off costs of amalgamating and establishing new structures following the demarcation process.	Conditional Grant		200 000		
				TOTAL	**293 290**	**100 418**	**132 243**

SCHEDULE 5

INFRASTRUCTURE ALLOCATIONS TO LOCAL GOVERNMENT

Vote	Name of Allocation	Purpose	Type of Allocation		Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	Column B MTEF Outer Years 2004/05
					R'000	R'000	R'000
Provincial and Local Govern-ment (Vote 5)	Consolidated Municipal Infrastructure Programme Grant	To provide internal bulk, connector, internal infrastructure and community services and facilities to low income households.	Conditional Grant		1 654 522	2 096 253	2 374 028
	Local Economic Development Fund Grant	To support planning and implementation of job creation and poverty relief alleviation projects.	Conditional Grant		98 500	117 000	—
	Integrated Sustainable Rural Development Strategy Grant	To support Integrated Sustainable Rural Development Strategy (ISRDS) nodal municipalities to establish institutional systems and nodal delivery teams for planning, project initiation and implementation of the ISRDS.	Conditional Grant		31 980	—	—
				TOTAL	**1 785 002**	**2 213 253**	**2 374 028**

Vote	Name of Allocation	Purpose	Type of Allocation		Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	Column B MTEF Outer Years 2004/05
Public Works (Vote 6)	Community Based Public Works Programme Grant	Creation of community assets in disadvantaged rural communities and to manage the facilities in co-operation with the local municipality.	Conditional Grant		228 320	228 320	—
				TOTAL	**228 320**	**228 320**	—
Mineral and Energy Affairs (Vote 30)	National Electrification Programme Grant	To implement the National Electrification Programme through providing capital subsidies to licensed municipalities to address the electrification backlog in permanently occupied residential dwellings.	Conditional Grant		228 013	210 000	210 000
				TOTAL	**228 013**	**210 000**	**210 000**
Transport (Vote 32)	Urban Transport Fund Grant	To promote planning of intermodal land transport infrastructure and operations, facilitation of integrated land use and land transport planning, the development of guidelines in this regard and to initiate demonstration projects in line with the Urban Transport Act, 1977.	Conditional Grant		28 600	—	—
				TOTAL	**28 600**	—	—
Sports and Recreation (Vote 19)	Building for Sports and Recreation Programme Grant	Promotion of sport and recreation within disadvantaged communities by development of new and upgrading of existing sports facilities and empowerment of communities to manage the facilities in co-operation with the local municipality.	Conditional Grant		84 117	123 095	
				TOTAL	**84 117**	**123 095**	—

SCHEDULE 6

GRANTS-IN-KIND/INDIRECT ALLOCATIONS TO PROVINCES

Vote	Name of Allocation	Purpose	Type of Allocation	Province/ Municipality	Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	Column B MTEF Outer Years 2004/05
					R'000	R'000	R'000
Arts, Culture, Science & Technology (Vote 14)	(a) Poverty Alleviation Grant	To fund Poverty Relief projects in the areas of cultural industries, cultural tourism and heritage development.	Indirect Transfer	Eastern Cape	2 985	9 297	—
				Free State	1 971	4 803	—
				Gauteng	4 597	2 000	—
				KwaZulu-Natal	4 336	5 154	—
				Mpumalanga	2 370	2 320	—
				Northern Cape	2 307	2 548	—
				Northern Province	1 770	2 314	—
				North West	3 225	5 027	—
				Western Cape	1 641	2 780	—
				Unallocated	4 798	5 757	—
				TOTAL	**30 000**	**42 000**	—
Education (Vote 15)	(a) Thuba Makote: Schools as Centres for Community Development Grant	To develop and pilot a cost effective approach to the design, construction and management of school facilities which will also meet the developmental needs of rural communities.	Indirect Transfer	Eastern Cape	5 000	10 700	—
				Free State	5 000	10 700	—
				Gauteng	4 000	5 300	—
				KwaZulu-Natal	5 000	10 700	—
				Mpumalanga	5 000	10 600	—
				Northern Cape	—	—	—
				Northern Province	5 000	10 700	—
				North West	5 000	5 300	—
				Western Cape	—	—	—
				TOTAL	**34 000**	**64 000**	—

Vote	Name of Allocation	Purpose	Type of Allocation	Province/ Municipality	Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	2004/05
	(b) National Ikhwelo Projects Grant	To provide access to skills development in General Education and Training for adult learners to enhance their social and economic capacity.	Indirect Transfer Grant	Eastern Cape	7 400	9 250	—
				Free State	2 520	3 150	—
				Gauteng	4 920	6 150	—
				KwaZulu-Natal	8 840	11 050	—
				Mpumalanga	2 920	3 650	—
				Northern Cape	760	950	—
				Northern Province	6 280	7 850	—
				North West	3 200	4 000	—
				Western Cape	3 160	3 950	—
				TOTAL	**40 000**	**50 000**	—
Social Development (Vote 18)	(a) Poverty Relief Grant	To increase self-reliance and improve social cohesion of specific demographic groups such as women, youth, children disabled and aged who are particularly vulnerable to poverty.	Indirect Transfer Grant	Eastern Cape	16 179	10 449	—
				Free State	8 690	5 774	—
				Gauteng	4 386	3 190	—
				KwaZulu-Natal	17 429	11 274	—
				Mpumalanga	10 446	6 874	—
				Northern Cape	4 315	2 887	—
				Northern Province	15 633	10 229	—
				North West	8 646	5 827	—
				Western Cape	3 811	2 942	—
				TOTAL	**89 535**	**59 446**	—

SCHEDULE 6

ALLOCATIONS-IN-KIND/INDIRECT TRANSFERS TO LOCAL GOVERNMENT

Vote	Name of Allocation	Purpose	Type of Allocation		Column A	Column B	
					2002/03	MTEF Outer Years	
					Allocation	2003/04	2004/05
					R'000	R'000	R'000
Public Works (Vote 6)	Community Based Public Works Programme Grant	Creation of community assets in rural disadvantaged communities and to manage the facilities in co-operation with the local municipality.	Indirect Conditional (via IDT) Grant		31 500	31 500	—
				TOTAL	**31 500**	**31 500**	—
National Treasury (Vote 8)	Financial Management Grant	To promote and support reforms to municipal financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems in municipalities and implementation of the Municipal Finance Management Act.	Indirect Conditional (via DBSA) Grant		43 230	60 915	70 249
				TOTAL	**43 230**	**60 915**	**70 249**

Vote	Name of Allocation	Purpose	Type of Allocation		Column A 2002/03 Allocation	Column B MTEF Outer Years 2003/04	2004/05
Water Affairs and Forestry (Vote 33)	Water Services Operating Subsidy Grant	To augment the Water Services Trading Account (Sub-Programme 4) of the Department of Water Affairs and Forestry thus providing funding for the operation and maintenance of water schemes that are owned and/ or operated by the department or by other agencies on behalf of the department.	Indirect Conditional (via Water Trading Account) Grant		669 687	776 436	768 334
	Implementation of Water Services Projects Grant	To fund bulk, connector and internal infrastructure for water services at a basic level of service, and implement such projects where municipalities lack the required capacity to do so.	Indirect Conditional Grant		884 099	1 011 812	817 554
				TOTAL	**1 553 786**	**1 788 248**	**1 585 888**

ATTACHMENTS

MEMORANDUM ON THE OBJECTS OF THE BILL

MEMORANDUM ON THE OBJECTS OF THE DIVISION OF REVENUE BILL

1. Section 214(1) of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) ("the Constitution") requires that an Act of Parliament be enacted to provide for the following:
   1.1 The equitable division of revenue raised nationally among the national, provincial and local spheres of government;
   1.2 The determination of each province's equitable share of the provincial share of that revenue; and
   1.3 Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.
2. Section 10 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) ("the Act") requires that, as part of the process of the enactment of the Act of Parliament referred to in paragraph 1, each year when the annual budget is introduced, the Minister of Finance ("the Minister") must introduce in the National Assembly, a Division of Revenue Bill ("the Bill") for the financial year to which that budget relates.
3. The Act requires that the Bill be accompanied by a memorandum explaining—
   3.1 How the Bill takes account of each of the matters listed in section 214(2)*(a)* to *(j)* of the Constitution;
   3.2 The extent to which account was taken of any recommendations of the Financial and Fiscal Commission ("the FFC") submitted to the Minister or as a result of consultations with the FFC; and
   3.3 Any assumptions or formulae used in arriving at the respective shares of the three spheres of government and the division of the provincial share between the nine provinces.
4. The Bill is introduced in compliance with the requirements of the Constitution and the Act as set out in paragraphs 1 and 2 above.
5. The memorandum referred to in paragraph 3 above is attached hereto and marked "Explanatory Memorandum on the Division of Revenue".
6. The allocations contemplated in section 214(1) of the Constitution are set out in 6 Schedules to the Bill, namely—
   6.1 Schedule 1 which sets out the respective equitable shares of anticipated revenue raised nationally in respect of the national, provincial and local spheres of government;
   6.2 Schedule 2 which sets out the respective shares of each province;
   6.3 Schedule 3 contains allocations to provinces for general and nationally assigned functions;
   6.4 Schedule 4 contains allocations to provinces for specified purposes;
   6.5 Schedule 5 contains allocations to municipalities for specified purposes; and
   6.6 Schedule 6 contains allocations in-kind to provinces and municipalities for designated special programmes.
7. The Bill attempts to align reporting requirements with those of the Public Finance Management Act, 1999 (Act No 1 1999). Given improved co-ordination and regulation of intergovernmental fiscal transfers introduced previously, this year's Bill does not propose material changes to the Division of Revenue Act, 2001. It amends only those sections where problems have been identified.
   7.1 The Bill also addresses the funding of all fiscally-weak municipalities. The institutional ("I") component of the equitable share to local government will be adjusted to contribute towards the costs of governance (including councillor remuneration) for such municipalities. It will also enable fiscally-weak category C municipalities that provide basic services directly to receive equitable share allocations.

8. The following is a brief summary of the Bill:

Section 1 contains the relevant definitions;

Section 2 sets out the objects of the Bill, which is essentially the promotion of co-operative governance in intergovernmental budgeting;

Section 3 provides for the equitable division of anticipated revenue raised nationally among the national, provincial and local spheres of government in Schedule 1;

Section 4 provides for each province's equitable share, which is set out in Schedule 2, and for a payment schedule in terms of which such shares must be transferred;

Section 5 provides for local government's equitable share of revenue and the determination of each municipality's share of that revenue;

Section 6 determines what must happen if actual revenue raised falls short of anticipated revenue or is in excess of anticipated revenue;

Section 7 provides for other allocations to provinces and municipalities from the national government's equitable share, which are set out in Schedules 3, 4, 5 and 6 to the Bill;

Section 8 provides for transfers to public and private entities;

Section 9 provides for the process of dealing with allocations to provinces and municipalities which are not set out in the Schedules to the Bill;

Section 10 requires a provincial treasury to submit certain information to the National Treasury in respect of the infrastructure allocation for construction, maintenance and rehabilitation;

Sections 11and 13 provide for municipal infrastructure and capacity building allocations;

Section 12 deals with the transfer of assets to municipalities;

Sections 14 to 20 set out the responsibilities of accounting officers, provincial treasuries, the Director-General: National Treasury and the Auditor-General;

Section 21 sets out a framework for the delay in payment of allocations in the event of, *inter alia,* non-compliance with the conditions or underspending;

Section 22 provides for the factors which must be considered before an allocation may be withheld from a province or municipality;

Section 23 allows for reallocations between municipalities;

Section 24 requires that an allocation set out in Schedule 3, 4, 5 and 6 only be utilised for its purpose and subject to its conditions;

Section 25 provides for the correction of any allocation made in error;

Section 26 provides that an allocation to a municipality with weak administrative capacity must be transferred to a stronger district municipality or the provincial government and be used for the benefit of the municipality with weak administrative capacity;

Section 27 requests that funds must, in the transfer of functions or obligations, follow that transfer and must not result in a municipality being financially burdened;

Section 28 provides for the amendment of a payment schedule and transfer mechanism by the Director-General: National Treasury;

Section 29 enables the Director-General: National Treasury to exempt an accounting officer from reporting requirements and other responsibilities;

Section 30 provides that non-compliance constitutes financial misconduct;

Section 31 provides for responsibility for costs incurred for litigation in violation of the principles of co-operative governance and intergovernmental relations;

Section 32 provides that any act performed prior to the commencement of this Bill and in fulfilment of its objects will be deemed as having been done in terms of its provisions;

Section 33 provides that the Minister may make regulations regarding any matter which may or must be prescribed or which is necessary for the effective implementation of this Bill;

Section 34 makes provision for the repeal of the Division of Revenue Act, 2001;

Section 35 sets out the short title of the Act.

9. PARLIAMENTARY PROCEDURE

The Bill must be dealt with in accordance with the procedure set out in section 76(1) of the Constitution as it provides for legislation required in Chapter 13 of the Constitution and which affects the financial interests of the provincial sphere as contemplated in section 76(4)*(b)* of the Constitution.

EXPLANATORY MEMORANDUM ON THE DIVISION OF REVENUE

("Annexure E")

EXPLANATORY MEMORANDUM ON THE DIVISION OF REVENUE

Background

Section 214 of the Constitution requires that an annual Act of Parliament determine the equitable division of nationally raised revenue between the three spheres, and the horizontal division among provinces. It also spells out criteria for determining the division of revenue and consultations necessary before enactment of the Division of Revenue Bill.

The Intergovernmental Fiscal Relations Act, 1997 (No 97 of 1997), gives effect to the Constitution by spelling out the consultation process for the Division of Revenue Bill. It also establishes the Budget Council and Budget Forum as consultative intergovernmental forums. Sections 9, 10(3) and (4) of the Act set out the consultation process, including consideration of Financial and Fiscal Commission's (FFC) recommendations. Section 10(5) of the Act requires an explanatory memorandum detailing how the Division of Revenue Bill takes account of each of the matters listed in Section 214(2)*(a)* to *(j)* of the Constitution; recommendations of the Financial and Fiscal Commission (FFC); and assumptions and formulae used to arrive at the respective shares contained in schedules 1 and 2 of the Bill.

This document is the explanatory memorandum tabled with the Budget as required by section 10(5) of the Intergovernmental Fiscal Relations Act. It has five parts:

- Part 1 sets out how the FFC's June 2001 recommendations have been taken into account.
- Part 2 outlines the fiscal framework that informs the division of revenue between the three spheres of government.
- Part 3 is a summary of how the Bill and the division of revenue take account of Section 214(2)*(a)* to *(j)* of the Constitution.
- Part 4 explains the underlying formula and criteria for the equitable division of the revenue among provinces and conditional grants between provinces.
- Part 5 sets out the formula and criteria for dividing the local government equitable share and conditional grants among municipalities.
- In addition, two appendices are published, with further detail on all the grants in Schedules 1 to 6 of the Bill.

The Division of Revenue Bill and its underlying allocations represent the culmination of extended in-depth consultation processes. The Budget Council, made up of the Minister of Finance and the nine MECs for Finance, deliberated on these issues at its annual Lekgotla on 6 and 7 July 2001 and at meetings on 14 August, 20 September, and 23 October 2001. Consultations over the local government share allocation involved a Ministerial Task Team appointed by Cabinet, a Joint MinMEC with Local Government held on 2 August 2001, and several technical meetings that included the South African Local Government Association (SALGA) and its provincial associations. All these consultations culminated in a meeting of the Budget Forum (Budget Council plus SALGA representatives and its provincial associations), on 21 September 2001. Representations by the FFC were also made at the meetings of the Budget Council and Budget Forum. The Ministers' Committee on the Budget, composed of national government Ministers, deliberated on the division of revenue before forwarding recommendations to Cabinet for consideration. An Extended Cabinet, involving both Cabinet Ministers and Premiers of provinces, was convened on 26 September 2001 to discuss budget priorities and the division of revenue.

A draft Division of Revenue Bill was gazetted on 6 December 2001 for public comment, and for comment by the FFC, provinces, and local government. The Bill has since been amended to take into account comments received, as well as to adjust for changes to the fiscal framework and new priorities.

This explanatory memorandum must be read with the *Budget Review*, especially chapter 7. The *2002 Budget Review* and *2001 Intergovernmental Fiscal Review* are available on the Treasury website — www.treasury.gov.za.

Part 1: Government's response to the Financial and Fiscal Commission recommendations

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (No 97 of 1997) require the FFC to make recommendations on the equitable division of nationally raised revenue. Under the Act, the FFC submits its recommendations to the Minister of Finance, Parliament and provincial legislatures 10 months ahead of the financial year, or later as may be agreed between the Minister of Finance and the FFC. The FFC presented nine proposals relating to provinces and 13 proposals relating to local government in *Financial and Fiscal Commission Submission: Division of Revenue 2002-2003* (June 2001).

The nine provincial-related proposals are grouped in the following categories:

- Equitable share (four proposals)
- Provincial own revenue (three proposals)
- Contingency reserve
- Capital grants.

The 13 proposals related to local governments are grouped in the following categories:

- Equitable share (two proposals)
- Funding basic municipal services
- Municipal powers and functions (four proposals)
- Municipal health services provision (two proposals)
- Infrastructure funding (two proposals)
- Municipal borrowing (two proposals).

The June 2001 recommendations of the FFC reaffirm that it is a national responsibility to manage economic and fiscal affairs, to determine the tax bases, the level and cost of servicing the national debt, and the overall borrowing requirement. The FFC supports the approach of deducting debt servicing costs and a contingency reserve from total revenue collected before dividing it among the spheres. It also notes that "any changes to the existing equitable share formula should reflect current priorities as determined by a political process". Government supports the FFC proposals on the process for determining the division of revenue.

The FFC recommendations are also underpinned by the principle of allocating to each sphere sufficient resources to enable it progressively to provide "constitutionally-mandated obligations in general and provision of basic services in particular". This takes account of the following:

- The institutional element for each sphere of government
- Other constitutional functions for which norms and standards should also be specified
- Obligations other than constitutional functions, that may be funded through conditional grants, own revenue and borrowing
- The need for infrastructure funding, which should vary according to policy priorities.

Government agrees with the FFC that provincial and local governments must prioritise their spending on constitutionally mandated obligations including the provision of basic services. There are, however, differences between government and the FFC on matters of approach. The FFC proposals pursue an approach which seeks to translate constitutional provisions on basic services into a "formula-based approach" for the division of revenue. Government's view, based in part on the analysis presented in the Intergovernmental Fiscal Review, is that such an approach would be impracticable. The following are some of the reasons:

- Lack of concise definitions of constitutionally mandated basic services associated with each sphere
- Absence of objectively determined norms and standards for basic services and other constitutional functions
- Unavailability of data that would enable the complete adoption of such an approach.

Unless it can be demonstrated that current vertical and horizontal divisions of nationally raised revenue both are inequitable between and within the spheres, it would be difficult to justify substantial revisions to the structure of the provincial and local government equitable share formula. Significant changes to the structure of the formula should be weighed against the potential disruptions, instability and uncertainty to budgetary planning that would arise from sudden shifts in allocations. The process of regularly reviewing—and adapting—the formula should however be maintained.

Government's response to the FFC's recommendations on Provincial finances

The four 2001 FFC recommendations on the equitable share allocation reflect an ongoing enquiry into the mechanisms for objectively and consultatively determining allocations to provinces. This approach builds on foundations laid in the 2000 recommendations. A brief summary of each proposal and Government's response is outlined below.

FFC Equitable Share Proposals

The FFC makes four proposals related to the equitable share formula:

(a) A review of the current FFC/Treasury equitable share formula should start by involving the relevant role players in a study to provide clear definitions of constitutionally mandated basic services and other constitutional obligations.

(b) The division of total national revenue available for equitable share allocations (net of debt service obligations and provision for contingencies) should take account of:

- Constitutionally mandated obligations in general and the provision of basic services in particular
- The institutional element for each sphere of government
- Other constitutional functions for which norms and standards should also be specified
- Obligations other than constitutional functions that may be funded through conditional grants, own revenue and borrowing
- The need for infrastructure funding, which should vary according to policy priorities.

(c) The equitable division of nationally collected revenue must proceed from the principle that constitutionally mandated basic services and other constitutional obligations should be prioritised and progressively realised.

(d) A review of the current equitable share formula should take account of new tax legislation for provinces and the proposed introduction of a capital grants scheme.

Government Response to FFC Equitable Share Proposals

Government concurs on the need to develop more precise information to determine the cost of constitutionally mandated basic services and obligations. Such information will improve budget decision-making and could be an important step toward activity-based costing. The collection of more decentralised or activity-based information is being prioritised, but will only be fully achieved in the medium-term, as new budget formats and other reforms are implemented.

Due to a lack of clear definitions of constitutionally-mandated services and in view of the lack of data to support a costed norms approach, Government has not implemented this set of recommendations.

Government will undertake a comprehensive and fundamental assessment of the equitable share formula once the 2001 Census results become available, reviewing its structure, components and data and exploring ways to make the formula more forward looking and policy-based for the 2005 MTEF. Government also agrees that the provincial equitable share allocation and formula may have to be reviewed once provinces take up specific taxation powers as their fiscal capacity may change. The assessment will involve the FFC.

FFC Provincial Own Revenue Proposals

The FFC reiterates three proposals made previously on provincial own revenues:

(a) The most feasible sources of provincial own revenue are surcharges on personal income tax and fuel levies, in addition to gambling and betting taxes, which are already allocated to provinces.

(*b*) Provinces should be allowed the flexibility to determine their own tax rates within the bands determined by the Minister of Finance.

(*c*) However, for (*a*) and (*b*) above to be operational, given the current tax-to-GDP target adopted by government, tax room should be created in order to maintain the tax burden within nationally determined targets, to ensure consistency with national economic policy.

The FFC proposals relate to provincial own revenues, proposals for specific taxation authorities, provincial flexibility to determine their own tax rates, and creation of tax room within national targets. These proposals were previously tabled in 1996. National government referred this matter to the Katz Commission in 1998, and thereafter approved a framework in November 1999 in line with the recommendations of the Budget Council. Subsequently, Parliament passed a Provincial Tax Regulation Process Act that takes effect on 20 February 2002.

Government Response to FFC Provincial Own Revenue Proposals

The FFC proposals on provincial own revenue are largely consistent with government's approach. There are, however, slight differences. The Provincial Tax Regulation Process Act, for instance, envisages the identification of specific taxes and rates as an outcome of a technical and political consultative process. In contrast, the FFC has put forward a list of taxes that provinces should be allowed to impose.

One of the taxes proposed by the FFC is a surcharge on personal income tax, a tax option that Government, the South African Revenue Service and the Katz Commission concluded is not feasible in the current environment. A number of technical factors make a personal income tax surcharge undesirable. These include additional administrative burdens, which may not be cost-effective in terms of revenue yield, and exacerbation of inter-provincial inequalities.

National government, the Budget Council, and the Katz Commission concluded that a fuel levy surcharge would be less of an administrative burden and has more potential if concerns about potential impacts on the national economy, inflation, and equity can be resolved.

Given the approach of Government, it follows that the three FFC recommendations above will be considered in relation to specific taxation proposals made by provinces.

FFC Contingency Reserves Proposal

The FFC proposes a study to determine a set of objective criteria for the utilisation of the national contingency reserve. The FFC expresses concern that the use of contingency amounts ultimately affects amounts available for equitable share funding and that provinces need financial stability, predictability, and flexibility. Accordingly, it proposes criteria for the use of the contingency reserve.

Government Response to FFC contingency reserve proposal

The Public Finance Management Act (chapter 4) provides for provincial budgets to be adjusted to provide for "unforeseeable and unavoidable expenditure". However, section 6 of the Treasury Regulations issued in terms of the PFMA does not provide specific criteria to define "unforeseeable and unavoidable". Currently, contingency reserve amounts are reserved in the expenditure framework to meet such needs for all spheres and the amounts are approved in an adjustments budget.

Although the concerns raised by the FFC are important, the current process for allocating contingency reserve amounts involves substantial consultation. Government maintains an open consultative process for dividing contingency reserve amounts, taking into account unforeseeable and unavoidable spending commitments across spheres. National government is not convinced it is more efficient for every province to have its own contingency fund. It will nonetheless explore, with the FFC, opportunities to improve mechanisms for provincial contingencies. This will include the use of criteria for allocating unexpended contingency amounts. National Government will consult with the FFC and make appropriate recommendations to amend the PFMA and/or its regulations to ensure stability and predictability in the use of contingency reserves.

FFC Capital Grants Proposal

The FFC proposes a capital grants model to allocate capital grants. The model is developed for the education, health and social welfare sectors and can be used to calculate service- and province-specific capital needs, as well as the relative shares for each social sector in a province. The model could be extended to cover other functions.

The proposed model takes into account inherited capital backlogs, ongoing capital expenditure needs, and depreciation. It starts by determining the efficient and actual capital stocks to establish an initial transition path that indicates "ideal needs". Once ideal needs are calculated, the model would calculate an actual transition path based on actual grants received and actual capital expenditures.

Government Response to FFC Capital Grants Proposal

Government has moved in the direction proposed by FFC. The infrastructure conditional grant was introduced in 2000/01 to boost provincial infrastructure spending and address backlogs. The Budget Council endorsed the allocation of the infrastructure grant with a two-part formula based on each province's proportion of equitable share funding and on their proportion of the backlog component of the equitable share formula.

Health, education, roads and rural infrastructure needs are an important part of the equitable share formula's backlog component. Infrastructure needs are also addressed by conditional grants. Accordingly, the potential practical contributions of the proposed FFC capital grants model should be considered as part of a comprehensive assessment of the equitable share formula's structure and data and its relationship to infrastructure needs funded by conditional grants.

The FFC-proposed capital grant model presents some useful ways to analyse infrastructure needs, but government believes that, in its current form, it would not be practical for allocating infrastructure grants.

Government's response to the FFC's recommendations on local government finances

The scope and detail of the FFC's recommendations on local government are substantive, timely and are largely supported by national government. The FFC provided two further submissions in July 2001 entitled *Division of municipal powers and functions between district and local municipalities* and *Remuneration of municipal councillors*.

National government will implement many of the FFC recommendations on local government. Other recommendations require further development to refine them into practical recommendations for the medium to long term. A number of outstanding policy issues, such as the division powers and functions between district and non-metropolitan local councils require resolution before these recommendations can be revisisted. The Department of Provincial and Local Government (DPLG) is leading a process to finalise these issues.

FFC Fiscal framework proposals

The FFC's suggested framework for the local government equitable share involves:

- Articulation of the constitutional requirements for the local government share
- Definition and identification of basic municipal services and other municipal functions
- Development of the principles that should underlie the funding of basic municipal services, other municipal functions and lifeline tariffs
- Investigation of the implications of these principles for the equitable share formula, financing of districts, funding infrastructure and local government borrowing.

Government Response to FFC Fiscal Framework Proposals

The significance attached to the equitable share mechanism within the local government fiscal framework is being implemented by Government. The FFC's recommendations regarding infrastructure funding for municipalities, local government borrowing and non-metropolitan powers and functions are also supported. The framework should be expanded to spell out the extent and type of local government tax and tariff authority, as well as the role and type of intergovernmental transfers.

National government does not accept the FFC's recommendation for a once-off conditional grant for debt restructuring and cash flow improvement. The moral hazard implicit in this approach has been extensively considered and rejected by government. There is no evidence that debt repayments are a more significant problem for municipalities than, for example, personnel costs.

FFC proposal for local government equitable share

The FFC recommends alterations to the equitable share formula in the long term to improve its accuracy in targeting municipalities with limited tax capacity. The FFC also recognises the difficulties in making rapid changes, and proposes a phased approach. In the medium term, it proposes that the local government formula consist of an improved fiscal capacity measure and an estimated cost of basic municipal services (net of cost-recovery) component. Currently, the formula includes a measure of household in poverty as a proxy for fiscal capacity, and the basket of services for the equitable share includes water and sanitation, electricity and refuse removal.

Government Response to FFC equitable share proposals

National government agrees with the FFC that it is important to evaluate the current formula and that an improved fiscal capacity parameter is desirable. However, the recommendations do not consider sensitivities of the current formula to specific variables, and thus the likely real effect of proposed changes on the distribution of resources between municipalities. Given that some new municipalities are fragile and require time to consolidate, and that information is poor or not available, it is premature to make significant changes to the current formula.

The initial formula proposed by Government on the inception of the equitable share included a tax capacity component, for intra-metropolitan tax equalisation, that was not implemented. This was because the regional service levy income at the metro level reduced the need for spillover transfers. Since demarcation, it has become necessary to include this component, to improve the fiscal capacity measure in the **I** grant. However, the tax capacity component cannot be implemented as current data on property rates is not readily measurable because:

- Municipal records do not often provide details of the categories and values of properties, and
- There are varying definitions of property tax bases in different parts of the country.

The Property Rates Bill will introduce a more uniform system of assessment, but will probably only be enacted in mid-2002. Current data submitted to Government do not follow uniform reporting formats, and data generated through budget reforms are only available for a few pilot municipalities. Measures are being implemented to address this situation. The FFC is working on proposals for improved fiscal capacity measures, assessing the availability of data for each proposed measure and modelling the distribution effects of various options.

It is worth noting that currently the Institutional component (**I** grant) allocations are made on the basis of municipal population and revenue-raising capacity parameters. This parameter assumes that individuals will pay 7,5 per cent of their income towards property taxes once the poverty threshold of R250 per month (R1 100 per month for households) is taken into account.

The FFC did not raise the issue of the cost of governance in its initial recommendations. However, it addressed this in a subsequent submission entitled *Remuneration of municipal councillors*. National Government concurs that councillor remuneration should be paid from own budgets.

The basic services component (**S** grant) of the equitable share grant will include a weighting factor to the nodes from 2002/03. As the equitable share is an unconditional transfer, it is unclear what benefit would be derived from introducing further services into the formula. However, the principle that such funds be included within this transfer mechanism, as opposed to the development of a conditional grant, is supported.

FFC proposal on defining and costing basic services

The FFC proposals use a number of criteria to determine whether a service is "basic". These include the intergovernmental assignment of services in the Constitution, that a service must be a basic right and essential for life, part of development and a policy priority. The FFC also stresses the importance of local considerations and that some communities might not achieve service access in the short term.

Government Response to FFC proposal on costing basic service

The FFC presents a Constitutional and legal basis for basic municipal services, but this legal and constitutional premise does not resolve problems in defining such basic services. Government's current approach is to allow for local discretion within broad norms and standards. It must be noted that the fiscal burden to support local government is already substantial, and that a change requires careful consideration. National government recommends that the FFC re-examine the benefits of this approach.

The FFC continues to pursue a costed-norms approach to the vertical division for local government. Although Government has reservations with a costed-norms approach for reasons outlined in response to the 2000 FFC proposals on provincial allocations, it concurs that there is analytical value to more accurate information on the cost of municipal services.

FFC lifeline tariffs, subsidies and redistribution proposal

The FFC proposes that national government fund lifeline tariffs. The recommendation equates the concept of subsidisation of service delivery with the introduction of "lifeline tariffs".

Government Response to FFC lifeline tariffs proposal

Government recognises its responsibility for redistribution, and by implication support for the provision of free basic services. This support is provided for in the equitable share, to avoid moral hazard implicit in a specific conditional grant for this purpose.

However, service delivery subsidies do not necessarily involve cross-subsidies. To the extent this is what the FFC intends, it must consider efficiency implications and potential economic distortions. This framework needs more consideration than received to date.

FFC infrastructure and capacity proposal

The FFC supports the principle of a single, integrated conditional grant for capital outlay, and its distribution on a three-year basis. It notes the current fragmentation does not promote an integrated development approach. It also supports a coordinated framework for capacity building and welcomes the introduction of the Municipal Systems Improvement Programme.

Government Response to infrastructure grant proposal

Government supports this proposal, and began implementing it in the 2000/01 financial year. Given that this approach is being phased in over a few years, government also supports the FFC's recommendation for better coordination between various national departments. Whilst broadly supporting the FFC's recommendations for an allocation formula and grant-matching, Government recommends further work before implementing these proposals, specifically on the relationship between the equitable share and consolidated infrastructure transfers.

FFC Regional Services Council (RSC) levies proposal

The FFC proposes that revenue obtained via RSC levies be retained in the local government system and that local tax discretion be expanded. The FFC also proposes removal of the current earmarking on the use of the RSC levy (specifically the infrastructure earmarking) and the introduction of an equalisation grant.

Government Response to FFC RSC levy proposal

Further work is required on municipal revenue instruments, both in the context of RSC levies and the broader local government restructuring. The division of fiscal powers, will in part, be informed by the finalisation of the powers and functions of the sphere and each category of municipality. Though the national government supports the relaxation of spending controls on revenue generated from RSC levies, this can only be implemented once municipal budgets are more transparent. Municipal budget reforms will require all expenditure to be properly classified to minimise the risk associated with the removal of restrictions. Both FFC proposals require more investigation and discussion within this context.

FFC recommendations on Municipal Borrowing

The FFC supports national government's intention to promote a local government borrowing market. It proposes a rules-based approach, and recommends regulating the extent to which a municipality may pledge its equitable share revenue to access debt.

Government Response to FFC municipal borrowing proposal

Government and the FFC strongly agree on the need and benefits of municipal borrowing. National government published a framework for municipal borrowing and financial emergencies in July 2000, titled *The Policy Framework for Municipal Borrowing and Financial Emergencies.* Government views the roles of fiscal transfers and municipal borrowing as complementary. Potentially creditworthy municipalities should reduce reliance on fiscal transfers to allow these funds to flow to non-creditworthy municipalities. This distinction is critical to understanding current government policy on municipal borrowing.

The FFC also contends that a rules-based approach to borrowing is appropriate for certain categories of local government. Undifferentiated normative limits relating debt or debt service to fixed percentages of a municipality's budget could encourage under-capacitated municipalities to over-borrow and restrict healthy municipalities from appropriate levels of borrowing. Rules-based limits may be appropriate for countries with under-developed financial sectors. However, it is not necessary where capital markets are well developed, as they are in South Africa. The objective is to ensure that capable municipalities use their full potential to free up national capital resources for poor and rural municipalities that cannot attract private sector finance. Restricting the use of the equitable share would also impede budgetary discretion.

National government accepts the FFC's caution against creating dependence on national intervention, and believes local governments should assume the greatest possible level of accountability for financial health. However, under some circumstances, mechanisms to deal with municipalities in financial emergencies are required. Existing constitutional provisions and their implementation have proved inadequate. Hence the approach proposed in the Municipal Finance Management Bill and proposed constitutional amendment.

FFC district health services funding proposal

The FFC proposes funding for municipal health services be included within the equitable share for local government in the long term. In the interim, it is proposed that funding for district health services be disaggregated to a district level to enable more equitable allocations within provinces.

Government Response to FFC District Health Proposals

The devolution of functions from national or provincial government to local government is complex, involving not just the shifting of funds (as funds follow function), but also shifting personnel, assets and liabilities. As noted in the *2001 Intergovernmental Fiscal Review*, the financial impact of shifting staff from provincial to local government can be extremely costly as the experience of shifting of R293 personnel from provinces to the local governments has shown.

A second issue relates to *sequencing* the devolution of provincial functions. This must be informed by a process that prioritises such shifts, to avoid swamping local government with additional functions. The *timing* for such function shifts must take into account the capacity of local governments to perform their current functions.

This function is currently with provinces and the provincial equitable share formula includes a significant health component. For this reason, the transfer of functions should be duly identified in the Division of Revenue Act on the basis that "funds follow function".

The pace and extent of such decentralisation has not been finalised, the definition of health service provision has not been clarified and the costs thereof have not been quantified. The FFC proposal that health services be excluded from the local government equitable share for the time being is supported.

Summary of discussion on FFC local government recommendations

The scope and detail of the FFC's recommendations on local government are commended. There are a number of recommendations that national government is in agreement with and accepts. Others require further development to become implementable recommendations for the medium to long term. A number of outstanding policy issues, such as the division of non-metropolitan municipal powers and functions, require resolution before final recommendations can be made. The timing for implementing many of the reforms must take into account that the new municipalities will require time to integrate and stabilise their delivery capacity.

Part 2: Fiscal Framework for 2002 MTEF

Fiscal framework

Table E-1 presents medium-term macroeconomic forecasts for the 2002 Budget. It sets out the growth assumptions and fiscal projections on which the fiscal framework is based.

Table E1 Medium-term macroeconomic assumptions

		2001/02		2002/03		2003/04	2004/05
	2001 Budget	2002 Budget	2001 Budget	2002 Budget	2001 Budget	2002 Budget	2002 Budget
Gross domestic product (R billion)	987,2	990,0	1 069,3	1 082,8	1 154,9	1 178,9	1 277,5
Real GDP growth	*3,7%*	*1,9%*	*3,5%*	*2,7%*	*3,3%*	*3,3%*	*3,6%*
GDP inflation	*6,0%*	*6,6%*	*4,7%*	*6,5%*	*4,6%*	*5,4%*	*4,6%*
National Budget Framework							
Revenue (R billion)	233,4	248,4	252,9	265,2	273,1	288,7	313,2
Percentage of GDP	*23,6%*	*25,1%*	*23,6%*	*24,5%*	*23,6%*	*24,5%*	*24,5%*
Expenditure (R billion)	258,3	262,6	277,3	287,9	297,5	311,2	334,6
Percentage of GDP	*26,2%*	*26,5%*	*25,9%*	*26,6%*	*25,8%*	*26,4%*	*26,2%*
Budget deficit (R billion)	-24,8	-14,1	-24,5	-22,7	-24,4	-22,5	-21,4
Percentage of GDP	*-2,5%*	*-1,4%*	*-2,3%*	*-2,1%*	*-2,1%*	*-1,9%*	*-1,7%*

Before resources can be divided, provision is made for national commitments such as debt service costs and a contingency reserve. Debt servicing obligations of R47, 5 billion, R49, 8 billion and R52, 4 billion are projected for the three MTEF years, and the contingency reserve amounts to R3,3 billion, R5 billion and R9 billion.

As shown in table E-2, once commitments are deducted, the total to be shared between the spheres amounts to R237, 1 billion, R256, 4 billion and R273, 1 billion over the three MTEF years. This revenue pool is available for sharing between national, provincial and local spheres.

The division of resources between the three spheres is determined primarily by the initial baseline allocations in the 2001 Budget, which reflect current priorities, together with priorities identified for additional resources in the framework. Hence, changes are generally restricted to the margin.

Additional allocations are made available from revisions to the framework arising from economic growth, robust tax collection, higher inflation, drawing down the contingency reserve and savings on debt service costs. The new priorities and pressures identified over and above the current priorities reflect Government's commitment towards reducing poverty, inequality and vulnerability. These include:

- Increasing the take-up of the child support grant and the impact of HIV/Aids on social development programmes
- Increasing health spending to cope with cost pressures such as HIV/Aids and hire professional staff, especially in rural areas
- Poverty alleviation programmes, including social security and support for municipalities in providing free basic services to the poor
- Increasing spending to redress serious backlogs in maintenance, rehabilitation, and construction of public infrastructure and to stimulate investment and economic growth
- Restructuring the Unemployment Insurance Fund and the Post Office to ensure improved service quality and access
- Increasing budget resources for rural electrification, and
- Expanding early childhood development, improving access to education for children with special needs and strengthening mathematics and science education.

Table E2 Division of revenue between the spheres of government

R million	2001/02 Budget[1]	2001/02 Revised estimate	2002/03	2003/04	2004/05
			Medium-term estimates		
National allocation	84 286	87 317	96 106	103 307	109 911
Provincial allocation	117 387	121 206	132 420	142 844	152 363
Equitable share	*106 260*	*107 460*	*119 452*	*128 466*	*137 089*
Conditional grants	*11 127*	*13 745*	*12 967*	*14 378*	*15 274*
Local government allocation	6 506	6 552	8 580	10 235	10 854
Equitable share	*2 618*	*2 618*	*3 852*	*5 021*	*5 461*
Conditional grants	*3 888*	*3 934*	*4 728*	*5 213*	*5 393*
Allocated expenditure	**208 179**	**215 075**	**237 106**	**256 386**	**273 128**
Plus:					
Debt service costs	48 138	47 515	47 503	49 845	52 434
Contingency reserve	2 000	—	3 300	5 000	9 000
Total expenditure	**258 317**	**262 590**	**287 909**	**311 231**	**334 561**
Percentage of shared total					
National allocation	*40,5%*	*40,6%*	*40,5%*	*40,3%*	*40,2%*
Provincial allocation	*56,4%*	*56,4%*	*55,8%*	*55,7%*	*55,8%*
Local government allocation	*3,1%*	*3,0%*	*3,6%*	*4,0%*	*4,0%*

1 For comparative purposes, local government transfers have been shifted from provincial share to the local government share.

These priorities determine how the additional allocations are divided between the spheres. Funds flow towards the sphere responsible for the prioritised functions. The impact of these policy decisions on the division of revenue is reflected in table E-2.

The revised budget framework provides for additional spending of R13,4 billion in 2002/03 and R17,9 billion in 2003/04 compared with forward estimates for these years in the 2001 Budget.

The national share decreases marginally from 40,6 per cent in 2001/02 to 40,5 in 2002/03 and further declines to 40,2 per cent in 2004/05. The local government share is significantly above previous budgets, rising from 3,0 per cent in 2001/02 to 4,0 per cent in 2004/05. The provincial share also decreases somewhat, from 56,4 per cent in 2001/02 to 55,8 per cent in 2004/05.

Schedule 1 of the Bill is the *legal* division of revenue between the three spheres, and is based on fiscal framework table E-3. The table indicates how Schedule 1 allocations are reconciled with the total available expenditure.

The national allocation in Schedule 1 (for 2001/02) is the actual amount allocated to the national government for appropriation or as a direct charge (but excluding the provincial equitable share). The national Appropriation Bill, based on the national allocation, includes conditional grants for provincial and local spheres, and (the top-sliced) allocation for state debt costs, a direct charge on the National Revenue Fund. It also includes the contingency reserve.

The provincial and local government allocations in Schedule 1 reflect their equitable share allocations only, and therefore exclude all conditional grants and grants-in-kind.

Table E3 Schedule 1 of the Division of Revenue Bill and the Fiscal Framework

R million	2001/02 Budget	2001/02 Revised estimate	2002/03	2003/04	2004/05
			Medium-term estimates		
Total expenditure	**258 317**	**262 590**	**287 909**	**311 231**	**334 561**
Less:					
Debt service costs	48 138	47 515	47 503	49 845	52 434
Contingency reserve	2 000 '	—	3 300	5 000	9 000
Total allocated expenditure	**208 179**	**215 075**	**237 106**	**256 386**	**273 128**
of which:					
National share including statutory appropriations and reserve	**149 439**	**152 512**	**164 604**	**177 743**	**192 012**
Less:					
Debt service costs	48 138	47 515	47 503	49 845	52 434
Contingency reserve	2 000	—	3 300	5 000	9 000
National share	**99 301**	**104 997**	**113 802**	**122 898**	**130 578**
of which:					
Conditional grants	*15 015*	*17 679*	*17 695*	*19 592*	*20 667*
National share (Excluding conditional grants)	**84 286**	**87 317**	**96 106**	**103 307**	**109 911**
Provincial share	**117 387**	**121 206**	**132 420**	**142 844**	**152 363**
of which:					
Equitable share	*106 260*	*107 460*	*119 452*	*128 466*	*137 089*
Conditional grants	*11 127*	*13 745*	*12 967*	*14 378*	*15 274*
Local government share	**6 506**	**6 552**	**8 580**	**10 235**	**10 854**
of which:					
Equitable share	*2 618*	*2 618*	*3 852*	*5 021*	*5 461*
Conditional grants	*3 888*	*3 934*	*4 728*	*5 213*	*5 393*

Part 3: Taking Account of the 10 factors set out in the Constitution

Section 214 of the Constitution requires that the annual Division of Revenue Act only be enacted after account is taken of factors set out in sub-section 214(2) *(a)* to *(j)*, of the Constitution. These include national interests, provisions for debt, needs of the national government and emergencies; the allocation of resources to provide basic services and meet developmental needs; fiscal capacity and efficiency of the provincial and local spheres; reduction of economic disparities; and promotion of stability and predictability.

This part of the annexure gives effect to section 10(5)*(a)* of the Intergovernmental Fiscal Relations Act. Taking the Constitutional factors into account is integral to processes that determine the division of revenue. Below is a summary of the constitutional principles that were taken into consideration in deciding on the division of revenue.

National interest and the division of resources

A stable macroeconomic environment, strong economic growth, reduced poverty, inequality and vulnerability, low unemployment, reduced crime and an efficient public service are addressed by programmes coordinated by national government.

Provision for debt costs

The resources shared among the three spheres of government include proceeds from national government borrowing. In recognition of Government's obligation to repay its borrowing and protect its capacity to borrow at low rates, debt service costs are met before resources are shared.

National needs and interests

The Constitution assigns exclusive and concurrent powers to each government sphere. The national government is responsible for functions that cross provincial boundaries, including protection services, economic services and foreign affairs.

Provincial and local basic services

Sub-national governments have significant autonomy to allocate resources to meet basic needs and respond to provincial and local priorities. The division of revenue provides equitable share increases to provinces and local government. This years year's division of revenue takes explicit account of cost pressures relating to social security grants, increased health costs related to HIV/Aids, and the provision of free basic services in local government.

Fiscal capacity and efficiency

The Constitution assigns the primary government revenues to the national sphere. Local governments finance most of their expenditure with property rates, regional service turnover and payroll levies, user charges and fees. The provincial sphere, however, has minimal revenue-raising capacity. To compensate for this, nationally raised revenue is shared, with provinces receiving the larger share. All three spheres are strengthening their financial management capacity.

Developmental needs

Developmental needs are incorporated into the equitable share formulae for provincial and local government and in specific conditional grants.

Economic disparities

Because there are economic and demographic disparities between and within provinces, the equitable share formulae are redistributive towards poorer provinces and municipalities.

Obligations in terms of national legislation

While the Constitution confers autonomy on provincial governments to determine priorities and allocate budgets, national government retains responsibility for policy development, national mandates and monitoring implementation within concurrent functions.

Predictability and stability

Equitable share allocations are based on estimates of nationally raised revenues, with allocations protected and not adjusted downwards. Allocations are for three years (although votes are annual) and are transferred according to a payment schedule.

Need for flexibility in responding to emergencies

Government has flexibility to respond to emergencies through a contingency reserve that provides a cushion for "unforseeable and unavoidable" expenditure.

Part 4: Provincial Allocations

National transfers to provinces comprise more than 96 per cent of provincial revenues, of which 90 per cent is through the equitable share (see table E-4). The remaining 10 per cent flows as conditional grants. Provinces raise less than 4 per cent of their revenues from own sources.

Table E4 Total transfers to provinces, 2002/03

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	20 498	1 522	22 020
Free State	7 996	970	8 966
Gauteng	18 224	3 488	21 712
KwaZulu-Natal	24 343	2 134	26 477
Mpumalanga	8 428	694	9 122
Northern Cape	2 907	247	3 153
Northern Province	16 145	1 256	17 401
North West	9 993	688	10 680
Western Cape	10 919	1 970	12 889
Unallocated			
Total	**119 452**	**12 967**	**132 420**

Provincial equitable share

The Constitution entitles provinces to a share of nationally raised revenue. The provincial equitable share allocation funds the bulk of public services rendered by provinces. The equitable share amounts to R119,5 billion in 2002/03, R128,5 billion in 2003/04, and R137,1 billion in 2004/05. It is divided between provinces using the provincial equitable share formula.

Revisions to the formula

The structure of the equitable share formula has been retained for the 2002 Budget. The formula, however, was adjusted to reflect increased provincial spending on social security grants and updates for new data on school enrolment. The weighting of the social services components reflect expenditures on these services over a three year period. Expenditure data reported in the *2001 Intergovernmental Fiscal Review*, indicated that welfare as a share of provincial expenditure in 2001/02 rose to 19 per cent (and reaches a high of 25 per cent in Northern Cape). Based on this, the weight for the welfare component was increased one percentage point. A balancing reduction in the weight of the economic component is also effected. The formula has been updated for latest enrolment data in education, the average of the past three years (1998, 1999 and 2000).

The revised equitable share formula

The equitable share formula comprises seven components that attempt to capture the relative demand for services between provinces and to adjust for particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. Although the formula has components for education, health and welfare, the share "allocations" are intended merely as broad indications of relative need. Provincial Executive Committees have discretion regarding the provincial allocations for each function. The provincial equitable share formula (with latest updates) comprises the following components:

- An education share (41 per cent) based on the size of the school-age population (ages 6-17) and the average number of learners enrolled in ordinary public schools for the past three years
- A health share (19 per cent) based on the proportion of the population with and without access to medical aid
- A social security component (18 per cent) based on the estimated number of people entitled to social security grants—the elderly, disabled and children—

weighted by using a poverty index derived from the Income and Expenditure Survey

- A basic share (7 per cent) derived from each province's share of the total population of the country
- A backlog component (3 per cent) based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities and share of the rural population
- An economic output component (7 per cent) based on the distribution of total remuneration in the country, and
- An institutional component (5 per cent) divided equally among the provinces.

Table E-5 shows the current structure and distribution of shares by component, and the target shares to be reached by 2003/04. The elements of the formula are neither indicative budgets nor guidelines as to how much should be spent on those functions. Rather, the components are weighted broadly in line with expenditure patterns to provide an indication of relative need.

Table E5 Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institu-tional	Backlog	Target shares
Weighting	*41,0*	*19,0*	*18,0*	*7,0*	*7,0*	*5,0*	*3,0*	*100,0*
Eastern Cape	18,4	17,0	19,6	15,5	6,5	11,1	20,6	17,0
Free State	6,3	6,5	7,1	6,5	5,3	11,1	5,7	6,6
Gauteng	12,6	14,7	13,9	18,1	41,6	11,1	5,1	15,4
KwaZulu-Natal	22,0	21,7	19,6	20,7	17,0	11,1	22,9	20,6
Mpumalanga	7,3	7,2	6,5	6,9	4,9	11,1	8,5	7,2
Northern Cape	1,9	2,0	2,2	2,1	1,7	11,1	1,3	2,4
Northern Province	15,4	13,3	13,7	12,1	3,0	11,1	22,9	13,6
North West	8,0	8,6	8,7	8,3	5,7	11,1	9,4	8,3
Western Cape	8,0	8,9	8,8	9,7	14,4	11,1	3,7	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Education component

The education component targets primary and secondary schooling, which accounts for roughly 90 per cent of provincial education spending. Both the school-age population and enrolment numbers are used to reflect the demand for education services. The school-age cohort, ages 6-17, is double weighted, reflecting Government's desire to reduce out-of-age enrolment. The enrolment figures have been updated for the 2002 Budget, taking into account the average enrolment of the last three academic years (1998, 1999 and 2000) provided by the national Department of Education.

Table E6 Calculation of education component

Thousands	Enrolment	School-age (6–17)	Weighted share (%)
Weighting	*1*	*2*	
Eastern Cape	2 253	2 010	18,4
Free State	784	680	6,3
Gauteng	1 508	1 394	12,6
KwaZulu-Natal	2 749	2 377	22,0
Mpumalanga	922	789	7,3
Northern Cape	202	223	1,9
Northern Province	1 904	1 665	15,4
North West	934	896	8,0
Western Cape	928	895	8.0
Total	**12 184**	**10 930**	**100,0**

Health component

The health component addresses the need for provinces to deliver primary and secondary health care services. As all citizens are eligible for health services, the provincial shares of the total population form the basis for the health share. The formulation of the health component recognises that people without medical aid support are more likely to use public health facilities, and are therefore weighted four times higher than those with medical aid support. This assumes the uninsured account for 95 per cent of the usage of public health facilities. The proportions of the population with and without access to medical aid are taken from the 1995 October Household Survey and applied to the census figures.

Table E7 Calculation of health component

Thousands	**With medical aid**	**Without medical aid**	**Weighted share (%)**
Weighting	*1*	*4*	
Eastern Cape	510	5 793	17,0
Free State	467	2 166	6,5
Gauteng	2 958	4 390	14,7
KwaZulu-Natal	1 103	7 314	21,7
Mpumalanga	392	2 409	7,2
Northern Cape	175	665	2,0
Northern Province	376	4 554	13,3
North West	457	2 897	8,6
Western Cape	1 127	2 830	8,9
Total	**7 566**	**33 018**	**100,0**

Welfare component

The welfare component captures provinces' responsibility for social security grants. The constituent parts reflect the target populations of social security payments, weighted by the distribution of expenditure for each type of grant. For example, the bulk of social security payments are old-age pensions. Means testing of grants is reflected through an income adjustment based on the provincial share of the population in the lowest two quintiles of the income distribution. This information was drawn from the 1995 Income and Expenditure Survey, which has not been updated. Data from the Department of Social Development on actual expenditure by grant type indicate the current weightings are still appropriate. These weights do not make explicit provision for the child support grant, although the vertical division of revenue takes this into account. The adjustments to the welfare component weight, which is based on the latest actual expenditure inclusive of the child support grant partially compensates for this.

Table E8 Calculation of the welfare component

Percentage	**Old age**	**Disability**	**Child care**	**All grants**	**Income adjustment**	**Weighted share**
Weighting	**65,0**	*25,0*	*10,0*	*75,0*	*25,0*	*100,0*
Eastern Cape	19,1	15,5	17,4	18,0	24,3	19,6
Free State	6,2	6,5	5,7	6,2	9,6	7,1
Gauteng	15,7	18,1	14,3	16,2	7,2	13,9
KwaZulu-Natal	19,8	20,7	21,7	20,2	17,6	19,6
Mpumalanga	5,9	6,9	7,3	6,3	7,1	6,5
Northern Cape	2,1	2,1	2,0	2,1	2,6	2,2
Northern Province	13,0	12,1	14,8	13,0	15,8	13,7
North West	7,8	8,3	8,4	8,0	10,7	8,7
Western Cape	10,4	9,7	8,4	10,0	5,2	8,8
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Economic activity component

The economic activity component is a proxy for provincial tax revenue, directing a proportion of nationally collected revenue back to its source. It also reflects costs associated with economic activity, such as maintenance of provincial roads. In 1999, the distribution of employee remuneration replaced provincial Gross Geographic Product (GGP) figures, since remuneration comprises roughly 60 per cent of provincial GGP and the GGP figures had not been updated since 1994. For 2001, Government decided not to adjust this component of the formula, pending publication of new GGP data.

Table E9 Economic activity shares

Percentage	**Share of Remuneration**
Eastern Cape	6,5
Free State	5,3
Gauteng	41,6
KwaZulu-Natal	17,0
Mpumalanga	4,9
Northern Cape	1,7
Northern Province	3,0
North West	5,7
Western Cape	14,4
Total	**100,0**

Basic component

In 1999, the basic component was split into a basic share distributed by population and a backlog component. The backlog component incorporates estimates of capital needs as drawn from the Schools Survey of Needs and the 1998 MTEF health sector report on hospital rehabilitation. The backlog component also incorporates a rural factor, in keeping with Government's focus on rural development. As no new information is available regarding its sub-components, the backlog component remains unchanged.

Table E10 Calculation of backlog component

Percentage	**Health**	**Education**	**Rural**	**Weighted** share
Weighting	*18,0*	*40,0*	*42,0*	*100,0*
Eastern Cape	16,3	22,0	21,3	20,6
Free State	3,8	7,8	4,4	5,7
Gauteng	10,8	6,3	1,2	5,1
KwaZulu-Natal	16,0	23,5	25,5	22,9
Mpumalanga	9,2	7,5	9,1	8,5
Northern Cape	1,2	1,2	1,3	1,3
Northern Province	27,5	20,4	23,3	22,9
North West	9,1	7,5	11,6	9,4
Western Cape	6,1	3,9	2,3	3,7
Total	**100,0**	**100,0**	**100,0**	**100,0**

Institutional component

The institutional component recognises that some costs associated with running a government and providing services are not directly related to the size of a province's population. It is therefore evenly distributed between provinces, as was the case last year. It constitutes 5 per cent of the total equitable share, of which each province gets 11,1 per cent.

The phasing-in of the formula

The formula determines the equitable share for each province. In 1999/2000, two years after the formula was introduced, data for the 1996 Census was published. The data reflected demographic profiles different from the preliminary census results used in the formula. Given the need to ensure stability in provincial budgets, it was agreed that revisions to the formula should be phased in over five years, from 1999/2000 to 2003/04. The target date of 2003/04 has been retained, so that the formula is fully implemented at the start of the 2003 MTEF cycle. Table E-11 shows the phasing.

Table E11 Phasing in the equitable share

Percentage	1999/00 base	2000/01	2001/02	2002/03	2003/04 target
Phasing	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Eastern Cape	17,6	17,4	17,3	17,2	17,0
Free State	6,8	6,8	6,7	6,7	6,6
Gauteng	14,9	15,1	15,2	15,3	15,4
KwaZulu-Natal	19,8	20,0	20,2	20,4	20,6
Mpumalanga	6,7	6,8	6,9	7,1	7,2
Northern Cape	2,4	2,4	2,4	2,4	2,4
Northern Province	13,3	13,4	13,5	13,5	13,6
North West	8,6	8,5	8,4	8,4	8,3
Western Cape	9,8	9,6	9,4	9,1	8,9
Total	**100,0**	**100,**	**100,0**	**100,0**	**100,0**

Conditional grants to provinces

Schedules 3 and 4 of the Division of Revenue Bill list all conditional grants to provinces. Conditional grants are a small but significant portion of provincial revenue. These grants were introduced in 1998/99 to support national priorities, particularly in the social services sectors. In particular, conditional grants are used to:

- Provide for national priorities in the budgets of other spheres
- Promote national norms and standards
- Compensate provinces for cross-boundary flows and inter-provincial benefits
- Effect transition by supporting capacity-building and organisational reforms, and
- Address backlogs and regional disparities in social infrastructure.

Although the conditional grant system has improved, some problems remain. Previous *Intergovernmental Fiscal Reviews* highlighted such problems, including non-transfers and underspending, while annual Division of Revenue Acts introduced corrective measures. The 2002 Division of Revenue Bill completes further reforms through advanced planning, enhanced transparency and clarifying responsibilities of national departments and provincial officers.

Except for the housing subsidy and HIV/Aids grants, no significant changes are made to conditional grants allocations in the 2002 MTEF. However, changes are introduced in the policy framework underlying some of the grants, particularly in health and housing. Policy and equity considerations necessitated restructuring and rationalisation of health grants.

Provincial Conditional Grant Framework

The provincial framework for conditional grants addresses problems that emerged with grant implementation. The framework aims to:

- Limit the number of conditional grants to those terrains where the equitable share and norms and standards cannot fund specific programmes
- Eliminate small conditional grants as they impose disproportionate administrative burdens
- Provide tougher criteria for national departments' planning to introduce conditional grants, including more rigorous consultation with provinces
- Incorporate conditional grants into the normal budget preparation process
- Provide best practice in designing, planning and monitoring conditional grants, and
- Focus on outcomes rather than inputs when monitoring conditional grants.

The framework draws a distinction between equitable shares and conditional grants. It emphasises that equitable shares are transfers made to enable provinces to provide basic services and nationally agreed priorities, such as school education, health and social grants, and other constitutionally assigned functions. The development of norms and standards with quantifiable service delivery measures will enable national departments to monitor the extent to which sub-national budgets comply with national standards. Reforms in the intergovernmental system, financial management and budget process provide for better understanding of national priorities and pressures on sub-national budgets and allow for effective monitoring to ensure provinces prioritise nationally-agreed policies in their budgets.

The framework draws a distinction between two types of conditional grants: block grants and specific purpose grants. Block grants provide recurrent funding for assigned or specialised functions and have limited conditionalities. Block grants include specialised grants like the National Tertiary Services and Health Professional Training grants.

Special purpose grants have strong conditionalities, often to fund specific national priorities. These grants are used to influence the way services are delivered in the short to medium term, through conditions imposed by a national department, which can result in a sanction if conditions are not met. Examples include the provincial infrastructure, housing subsidy, education financial management and HIV/Aids grants.

Specific purpose grants are *an option of last resort,* considered only if a national department demonstrates the equitable share mechanism has failed to get provinces to budget for specific priorities.

Given the system of intergovernmental relations, a set of principles to guide the budget process across all three spheres of government has been developed. These principles not only promote transparency, but also ensure accountability, better auditing, better planning and implementation of conditional grants. The critical principles are that:

- All fund allocations must be part of one comprehensive budget process
- Departments make three-year allocations for all grants
- Each grant to be appropriated by the receiving beneficiary government
- There should be transparency of criteria for division of a grant between provinces
- Focus should be on performance monitoring and outputs, and
- Clear arrangements that ensure national departments fulfil their fiduciary responsibilities.

Allocations

Tables E-12 and E-13 provide summaries of conditional grants for 2002/03 and allocations by province. The largest conditional grants in the 2002 Budget are in the health sector (R6,4 billion), followed by the Department of Housing (R3,8 billion), and the National Treasury (R2 billion). Education and Welfare Departments administer small but important grants for the improvement of financial management in these sectors. Four provinces, Gauteng, KwaZulu-Natal, Western Cape and Free State, benefit most from tertiary services and training grants in health. Significantly, they provide specialised services to all citizens. Other health grants flow mainly to poorer provinces. Below is a summary of the conditional grants listed in Schedules 3 and 4 of the Bill.

Table E12 Conditional grants for 2002

R thousand	2001/02 Revised[1]	2002/03	2003/04	2004/05
		Medium-term estimates		
Agriculture	**28 376**	**24 000**	**38 000**	**—**
Land Care Projects	28 376	24 000	38 000	—
Health	**5 984 293**	**6 399 710**	**6 804 711**	**7 256 548**
National Tertiary Services	3 459 594	3 666 842	3 892 849	4 151 542
Health Professions Training and Development	1 234 090	1 279 248	1 299 475	1 393 366
Hospital Revitalisation	500 000	520 000	543 400	576 004
Nkosi Albert Luthuli Academic Hospital	103 800	—	—	—
Pretoria Academic Hospital	50 000	70 000	90 000	—
HIV/Aids	54 398	157 209	266 576	380 480
Integrated Nutrition Programme	582 411	582 411	582 411	617 356
Hospital Management Improvement	—	124 000	130 000	137 800
National Treasury	**3 947 877**	**1 950 000**	**2 514 000**	**2 852 840**
Supplementary Allocation	2 247 877	—	—	—
Provincial Infrastructure	800 000	1 550 000	2 314 000	2 852 840
Infrastructure Rehabilitation	600 000	400 000	200 000	—
Section 100(1)*(a)* Agreement	300 000	—	—	—
Education	**297 500**	**418 320**	**439 814**	**373 403**
Financial Management and Quality Enhancement	213 000	224 320	234 414	248 479
HIV/Aids	63 500	142 000	117 400	124 924
Early Childhood Development	21 000	52 000	88 000	—
Housing	**3 325 958**	**3 843 674**	**4 246 898**	**4 461 972**
SA Housing Subsidy Grant	3 225 958	3 739 674	4 137 898	4 346 432
Human Resettlement Development	100 000	104 000	109 000	115 540
Social Development	**2 024 073**	**57 300**	**64 235**	**68 185**
Financial Management and Social Security System	10 236	10 800	—	—
Social Security Backlog	2 000 000	—	—	—
HIV/Aids	12 500	46 500	64 235	68 185
Woman Flagship	1 337	—	—	—
Provincial and Local Government	**261 414**	**274 478**	**270 747**	**261 192**
Local Government Support	160 000	170 000	160 000	143 800
Consolidated Municipal Infrastructure Programme	98 914	104 478	110 747	117 392
Disaster Relief	2 500	—	—	—
Total	**15 869 491**	**12 967 482**	**14 378 405**	**15 274 140**

1 The total includes the supplementary grants to the amount of R2,124 billion, which have been phased into the equitable share, with effect from the 2002/03 financial year.

Table E13 Conditional Grants to Provinces for 2002/03

R thousand	Agriculture	Health	Provincial and Local Government	Infra-structure	Housing	Educa-tion	Welfare	Total
Eastern Cape	6 000	436 883	58 466	356 107	581 485	77 390	5 897	1 522 228
Free State	1 400	456 963	35 059	151 913	290 597	26 354	7 710	969 996
Gauteng	—	2 418 044	28 744	157 084	824 940	51 453	8 036	3 488 301
KwaZulu-Natal	4 000	921 905	40 772	331 123	733 759	92 449	9 662	2 133 670
Mpumalanga	2 000	177 094	18 749	208 961	248 038	30 537	8 128	693 507
Northern Cape	1 300	84 458	18 059	52 997	78 309	7 948	3 804	246 875
Northern P.	5 000	301 354	26 001	460 519	392 767	65 676	4 269	1 255 586
North West	3 000	177 786	23 771	135 086	308 001	33 466	6 548	687 658
Western Cape	1 300	1 425 223	24 857	96 210	385 778	33 047	3 246	1 969 661
Total	**24 000**	**6 399 710**	**274 478**	**1 950 000**	**3 843 674**	**418 320**	**57 300**	**12 967 482**

Health grants

Health grants amount to about R6,4 billion in 2002/03, and increase to R7,3 billion by 2004/05. They constitute about 49,4 per cent of the total conditional grants to provinces. The health sector's new framework for tertiary services and training constitutes a major reconfiguration of the three tertiary services and training grants and will improve equity. The new framework provides for the rationalisation of the three grants into two: the National Tertiary Services grant (NTS grant) and a Health Professional Training and Development grant (HPTD grant).

The NTS grant amounts to R3,7 billion in 2002/03, increasing to R4,2 billion in 2004/05. The NTS grant will fund tertiary units in 27 hospitals compared to the current central hospitals grant to 10 central hospitals. This entails redistribution of funds from Western Cape and Gauteng, which are expected to fund any resulting shortfalls from their equitable share or own revenue. The shift between provinces will be phased in over five years. The basis for the grant allocations in the base year is the actual cost of selected tertiary services. Since the cost methodology underlying the new grant includes certain training costs, part of the previous Health Professionals Training and Research grant has been incorporated into the NTS Grant.

The HPTD grant consists of several components. The largest is distributed to provinces according to a formula based on the number of medical students. A new component, amounting to R227 million over five years, is introduced in 2002/03. This provides for a phased increase in the number of medical specialists and registrars in under-served provinces to address inter-provincial inequities. The aim is that 25 per cent of post-graduate training capacity should be developed in provinces that do not have such capacity. The allocation for the HPTD grant is R1,3 billion in 2002/03.

The allocation for the Hospital Revitalisation grant is R520 million in 2002/03, increasing to R576 million in 2004/05. Gauteng will receive R70 million in 2002/03 and R90 million in 2003/04 as a contribution towards the costs of construction of the Pretoria Academic Hospital.

The Integrated Nutrition Programme (INP) is targeted at poor provinces with large populations of school children. Eastern Cape, Northern Province and KwaZulu-Natal receive about 63,5 per cent of the allocation. This grant increases to R617 million in 2004/05 after being kept constant at R582 million. The Department of Health is also finalising a review of this programme to inform any changes in its administration and funding level for the 2003 MTEF.

The Department of Health received R79 million in 2001/02, for financial management, as part of the supplementary grant to pilot hospital management reforms. With the phasing out of the supplementary grant, the financial management grant amounting to R124 million in 2002/03 has been transferred to the Department of Health. This grant, renamed the Hospital Management and Quality Improvement grant will facilitate financial, personnel, and procurement delegations, strengthen financial management capacity and support the implementation of range of hospital quality of care interventions specified in the national policy for quality of care.

Education grants

The Department of Education manages grants for financial management and school quality enhancement, early childhood, and HIV/Aids. The financial management and quality enhancement grant was introduced in 1999/00 and was to be phased out in 2002/03. But the Department of Education proposed the grant be retained to consolidate gains achieved over the last three years in improving education outcomes. The grant plays a pivotal role in the implementation of *Tirisano*. No changes are proposed to the baseline allocations.

The early childhood development grant was introduced in 2001/02, and is phased into the equitable share in 2003/04. The roll-out of the programme, to be phased in over 10 years, will mainly be funded from provincial equitable shares.

The national Department of Education manages two projects from the national special poverty relief fund. The projects are for school building (Thuba Makote project) and training and development of adult learners (Ikhewelo project). These are considered indirect transfers as their outputs will benefit provinces, even though the national department implements them. The Thuba Makote project is an initiative of the Department of Education to develop and pilot cost effective approaches to the design, construction and management of school facilities that can also serve as community development centres. The allocation for this project is R34 million in 2002/03, increasing to R64 million in 2003/04. The Ikhwelo project aims to provide access to literacy and skills development to adult learners. It develops trainers who will train adult learners in agricultural and SMME skills and literacy. The allocation for Ikhwelo increases from R25 million in 2001/02 to R50 million in 2003/04.

National Treasury grants

The major change in National Treasury conditional grants is the phasing out of the supplementary grant in the 2002 MTEF. This grant has been used to improve financial management and implement budget reforms. The major portion of this grant (R2 billion) is phased into the provincial equitable share. A portion, which was supporting health financial management in provinces, has been transferred to the Department of Health for hospital management reforms and renamed the Hospital Management and Quality Improvement grant.

The provincial infrastructure grant grows from R800 million in 2001/02 to R1,6 billion in 2002/03, R2,3 billion in 2003/04 and R2,9 billion in 2004/05. This brings total infrastructure funds available through this grant to R6,7 billion over this period. To deal with backlogs, the provincial division has been effected using a combination of the equitable share formula and backlog component. This enables government to direct funds towards provinces with large backlogs, without neglecting provinces that inherited higher levels of infrastructure. Provinces are expected to use these funds mainly for rehabilitation and construction of roads, schools, and health facilities and to address infrastructure for rural development. Provincial treasuries administer this grant, with allocations made to line departments. Provinces are also expected to oversee implementation of infrastructure plans and capital projects.

The flood disaster reconstruction grant is used to assist with reconstruction and rehabilitation of infrastructure damaged by floods in 1999/2000 in all the provinces. The 2002 Budget framework sets aside funds for flood reconstruction amounting to R400 million in 2002/03 and R200 million in 2003/04. This grant is phased into the infrastructure grant in the last year.

Housing grants

The Department of Housing administers two grants. The Housing Subsidy grant provides subsidies for low-income housing. The Human Settlement Redevelopment grant funds urban pilot projects. The department has made a number of policy changes that affect the housing subsidy grant. These include a shift in funding to urban areas, recognising the magnitude of housing backlogs; a focus on improving the quality of housing units being delivered; an increase in the maximum housing subsidy level; and implementation of a medium density housing strategy.

To enable the department to implement the new policies whilst still reducing backlogs, the grant increases by R300 million, R579 million and R574 million above baseline over the next three years. This will raise real growth in housing expenditure about 5,6 per cent a year. The department increases the housing subsidy 6 per cent from R16 000 to R17 920, for inflation. The subsidies for medium density housing will be paid up to a maximum of R27 000. Families earning R3 500 or less will get maximum amount of the subsidy. Given that the total cost for accessing medium density housing is estimated at R54 850 per unit, households that take this option will have to acquire mortgage loans to top up the subsidy.

The Department of Housing reviewed the formula for allocating funds between provinces to align it with the new policy for prioritisation of urban and medium density housing. The key elements of the new formula and weights are:

- Housing need defined by number of homeless living in shacks and informal units (50 per cent)
- Households earning less than R3 500 (30 per cent)
- Population based on the 1996 Census (20 per cent).

To reduce the impact of the new formula on provinces receiving reduced allocations, for the first two years the new formula is only applied to additional allocations above the 2001 baseline. Full implementation of the formula in the allocations begins in 2004/05.

Local Government Grants to Provinces

The Department of Provincial and Local Governments transfers two grants to provinces — local government support and consolidated municipal infrastructure programme grants—to assist municipalities. The Local Government Support Grant is part of capacity building grant aimed at supporting smaller municipalities. This grant is allocated to provinces for municipalities facing financial difficulties in the medium term, by supporting efforts to restructure the institutional and financial arrangements. This grant amounts to R474 million over the 2002 MTEF.

A portion of Consolidated Municipal Infrastructure Programme is allocated to provinces to provide technical and administrative support to enable municipalities to implement the infrastructure programme. Provinces are allocated R104 million in 2002/03, increasing to R117 million in 2004/05.

Social development grants

Most social development grants have been phased out. The Financial Management Grant will be phased out this year and R11 million is set aside for provinces in 2002/03. The HIV/Aids grant is most important, as it provides for community and home-based care.

HIV/Aids conditional grants

Government began implementing an integrated strategy for HIV/Aids through the social service departments (Education, Health and Social Development) in the 2000 Budget. The strategy focuses on care and support for children and youth infected and affected by HIV/Aids. Provinces were allocated R110 million in 2001/02, 31 per cent of which is allocated to health departments for HIV testing and counselling and for home-based care, while 58 per cent is allocated to education for implementation of lifeskills programmes in schools. Mindful of the need to step up HIV/Aids programmes, government is setting aside increased earmarked allocations of R346 million in 2002/03, R448 million in 2003/04 and R574 million in 2004/05.

The health share increases from R54 million in 2001/02 to R157 million in 2002/03. This will enable provinces to strengthen voluntary counselling and testing, provincial programme management, introduce step-down care option, and roll-out of the mother-to-child transmission prevention program.

The education sector is responsible for the roll-out of the lifeskills programme in schools, and the Department of Social Development is responsible for the development of home-based care. The HIV/Aids grant allocation to Education increases from R63,5 million in 2001/02 to R142 million in 2002/02, and Social Development share increases from R12,5 million to R46,5 million.

Part 5: Local government allocations

The Constitution vests significant revenue-raising capacity with the local sphere of government in relation to its functions. The bulk of current budgeted municipal revenue (92 per cent) is derived from their own taxes and user charges. Grants from national government, including the equitable share and conditional grants, account for the remaining 8 per cent of municipal revenue.

There is, however, significant variation between municipalities, with poorer municipalities relying on grants for up to 37 per cent of their income and more urban municipalities raising up to 98 per cent of income through local taxes and tariffs. Although this variation may be largely due to differences in fiscal capacity, it may also reflect weak fiscal effort (the failure to collect all revenue due) in some areas. Local government enjoys the largest increases in allocations for the 2002/03 MTEF. This includes substantial increases to the equitable share and an increase in grants focussed on infrastructure. In total, national transfers to local government have increased from R6,5 billion in 2001/02 to R8,5 billion in 2002/03 and will again increase in 2003/04 to R10,2 billion, and R10,9 billion in 2004/05. This represents an average annual increase of 18,3 percent over the MTEF period. The 2004/05 allocation includes poverty relief programmes amounting to R562 million; these programmes are expected to be phased into the local government share, pending their review by Cabinet later this year.

Types of Transfers

Transfers to local governments from nationally raised revenue take three forms: the equitable share grant, conditional grants and grants-in-kind.

- Equitable share allocations are made to municipalities, without conditions attached. Allocations are made in terms of the policy framework described below.
- Conditional grants for infrastructure and capacity building are disbursed by various departments in pursuit of specific policy objectives and with conditions attached.
- Grants-in-kind are made when municipalities perform certain services on behalf of national or provincial government, or are subsidised by a national or provincial department that provides a service for which a municipality is responsible. An example of the former are certain health and emergency services; an example of the latter is the Water Services Operating Subsidy.

National government is refining the system of intergovernmental transfers to municipalities to improve efficiency, equity, transparency and predictability. This reform programme will:

- Simplify and rationalise national transfers to the local government sphere into three funding streams, namely the equitable share, infrastructure and capacity building grants respectively
- Introduce three-year allocations to individual municipalities for all national transfers, to stabilise municipal budget processes and allow them to develop more credible Integrated Development Plans.
- Require municipalities to show all national and provincial transfers on their budgets and report on outputs achieved by conditional grant programmes, and
- Reduce grants-in-kind (such as asset transfers) to municipalities to enhance the sustainability and accountability of capital programmes.

Table E14 below reflects national transfers to local government.

Table E14: National transfers to local government

R million	2001/02	2002/03	2003/04	2004/05
Equitable share[1]	2,618	3,852	5,021	5,461
Transition grant	578	200	—	—
Water & sanitation operating	660	700	776	768
Subtotal equitable share & related	**3,856**	**4,752**	**5,798**	**6,229**
Consolidated Municipal Infrastructure Programme	927	1,655	2,096	2,374
Water Services Project	758	884	1,012	818
Community Based Public Works Programme[2]	349	260	260	290
Local Ecomomic Development Fund[2]	99	99	117	127
Sport & Recreation facilities[2]	36	84	123	137
National Electrification Programme	—	228	210	210
Urban Transport Fund	38	40	41	44
Integrated Sustainable Rural Development	33	32	—	—
Subtotal capital	**2,241**	**3,282**	**3,859**	**4,000**
Restructuring grant	350	300	315	343
Financial management grant	60	154	162	149
Disaster Relief	3	—	—	—
Municipal System Improvement	43	93	100	132
Subtotal capacity building & restructuring	**456**	**548**	**577**	**624**
Total transfers to local government[3]	**6,552**	**8,581**	**10,234**	**10,854**

1 R293 municipal portion (R358 m) incorporated into equitable share from 2001/02.
2 Poverty relief allocations in 2004/05 are subject to Cabinet review.
3 The administrative overheads of grants have been shifted to the national and/ or provincial share to more accurately reflect actual spending.

The equitable share for local government

Background

The equitable share for local government is an unconditional transfer, with the formula for division between municipalities based on the principles of equity and predictability. It was first introduced in the 1998/99 financial year and replaced previous intergovernmental grants transferred through provinces, and whose division between municipalities was *ad hoc* and differed between provinces.

The equitable share is projected to increase 27,6 per cent a year from the 2001/02 allocation of R2,6 billion to R5,5 billion in 2004/05. As the intergovernmental transfer system is being rationalised, its share as a proportion of national transfers to local government increases from 40 per cent in 2001/02 to 50,3 per cent in 2004/05. These increases are to support institution-building in newly demarcated municipalities and to provide resources to implement commitments on the provision of free basic services.

Two recurrent grants are expected to be incorporated into the equitable share over the MTEF. These are the Water Services Operating Subsidy, and the Local Government Transition Grant. The R293 personnel grant was incorporated in 2000/01.

The Water Services Operating Subsidy, funded through augmentation of the Water Services Trading Account on the Department of Water Affairs and Forestry (DWAF) vote, funds the operation of retail water schemes owned and run by DWAF. These schemes are intended for transfer to municipalities, although a lack of cost recovery and the need for refurbishment of some schemes has resulted in limited progress to date.

DWAF is currently preparing for the transfer of these schemes to municipalities. Once funding has been incorporated, it will enhance the ability of municipalities to address the challenge of providing free basic services to poor households.

The Local Government Transition Grant, aimed at supporting municipalities through the transition process by partially assisting with once-off costs directly related to the amalgamation, is set to be phased into the equitable share in the 2003/04 fiscal year.

The R293 grant was incorporated into the equitable share in 2000/01 although it is not allocated by the same formula. This grant covers towns under the old homeland administrations, and involved the transfer of staff and assets from provinces to municipalities. In 2000/01, the R293 allocation for municipal functions (R447 million) was incorporated into the local government equitable share. Based on the number of staff transferred to municipalities or retained by provinces, the local government equitable share increased R358 million while R105 million remained with provinces.

For 2002/03 the local government share of the R293 grant has been increased by R23 million. This updates incomplete information provided in 2001/02 on the number of staff that had been transferred to municipalities in KwaZulu-Natal. Based on previous agreements with local governments, municipalities are guaranteed their current R293 grant allocations in full until 2003/04, whereafter this grant will be incorporated into the equitable share.

Equitable share formula

Excluding the small R293 component, the local government equitable share formula consists of two components (with an added element that will allow for the recognition of nodal areas):

- An institutional grant (**I** grant) to support administrative capacity in municipalities
- A basic services grant (**S** grant) firstly, to support the provision of basic services to low-income households; secondly, to provide fiscal resources weighted towards the nodal areas.

The I grant

The institutional grant to local authorities has the following features:

- It assumes there are economies of scale in overhead operating costs in relation to population, so that as population rises, the I grant per capita falls.
- It declines as the average income of the municipality increases, so that for a given population size, poor municipalities receive higher I grants.

The formula for calculating the **I** grant is:

$$\mathbf{I}_i = \mathbf{I}^*\mathbf{P}_i^{\gamma} - \mathbf{0.075(y}_i - \mathbf{250)*P}_i$$

- where $\mathbf{I}_i$ is the **I** grant allocation to municipality i (with no grant allocated in cases where the formula yields values less than zero);
- $\mathbf{I}^*$ a per capita **I** grant parameter that serves to determine the total amount of money allocated through the **I** grant;
- $\mathbf{P}_i$ is the population in municipality i;
- $^{\gamma}$ is a scale parameter that could take any value between > 0 and ≤ 1;
- $\mathbf{y}_i$ is average monthly income per capita in municipality i. For values of y_i below the stated monthly per capita expenditure floor, the term is set equal to zero;
- **0.075(y — 250)P** represents normative rates income and assumes individuals will pay 7,5 percent of their income towards property taxes once the poverty threshold of R250 per month (equivalent to R1 100 per month for households) is taken into account. A normative rates approach was taken so municipalities could not manipulate the **I** grant by imposing low rates.

Given the establishment of new municipalities in December 2000, the **I** grant portion of the equitable share was increased initially by 30 per cent in the 2001/02 Adjustment Budget. In the 2002/03 budget, the increase is 42 per cent as measured against the main budget in 2001/02. The **I** grant of the formula will be re-evaluated in future years.

The **I** grant formula was adjusted in 2001/02 through changing the poverty threshold from R800 to R1100 (see below). This resulted in a change in the **I** Grant formula from ***0.05(y—180)P*** to ***0.075(y—250)P***.

The **I** grant will, from 2002/03, also be extended to category C municipalities to assist with the cost of governance. The **I** grant is a contribution to the cost of governance in a municipality and not an earmarked allocation. Municipal councils have the discretion to budget more or less in this regard, in line with any national framework. It must be noted that relatively well-capacitated category A, B and C municipalities will not qualify for the **I** grant.

The **S** grant

The **S** grant is designed to meet operating costs of a municipality when providing basic services to low income households. For this reason, the formula requires an estimate of the number of people in households below the poverty level for each local authority.

The formula for the **S** grant is:

$S = \alpha\beta LH$ where

α is a phase-in parameter between zero and one based on the municipality's classification as metropolitan, urban, or rural.

β is a budget-adjustment parameter, set to adjust the size of grants to the available budget.

L is the annual per capita cost of providing basic services to households in poverty.

H is number of households in poverty.

Alphas were introduced in acknowledgement of the differences in the financial and institutional capacities of rural and urban municipalities to utilise their equitable share allocations towards basic services. Different phasing-in parameters (alphas) were set which will increase annually until they reach 1. However, the alphas were not changed during the 1999/2000 financial year from the previous financial year (0.7 for metros/urban and 0.25 for rural) in order to increase stability during the transition to the new municipalities. From the 2001/02 financial year, the alphas are again to be increased as the municipal demarcations are now complete. The urban/metro alpha will reach 1 in the 2003/04 financial year whereas the rural alpha will be completely phased-in (reach 1) during the 2005/06 financial year, to take account of capacity to spend efficiently and effectively.

An indicative estimate of R86 per month is used to determine the L parameter, which estimates cost of a basic basket of municipal services. There are two methods to determine H, the number of households in poverty: derived household income and imputed household expenditure. Up to the 2000/01 financial year, the derived household income, supplied by Statistics SA, was used to determine the number of poor households. In a study for Statistics SA in 2000, an alternative was developed to the derived household income method. This new method imputes an income to each household, using regression results of income on a range of variables from the 1995 Income and Expenditure Survey. The relevant variables in the 1996 Census are then used to predict income for each household.

It is widely agreed that data on household expenditure, particularly for households with limited economic resources, provide a better measure of total income (or, more generally, ability to pay) than data on income itself. By combining various data sources (Census 1996 and Income and Expenditure Survey results), Statistics SA found it possible to determine imputed household expenditures for individual municipalities. Because Statistics SA's tabulations of imputed expenditure provide the most accurate measure of poverty available, they were used from the 2001/02 equitable share allocation model for calculating both the **I** and **S** grants. The data is being kept constant until new census data become available. The basic **S** Grant is aimed at a category A, B or C municipality with the responsibility and authority for the provision of basic services. In instances where authority is shared within a single jurisdiction, the S grant will be divided between authorities in an equitable manner. Where the division of responsibilities is currently known, this will be effected in the publication of allocations to municipalities. This process will be subject to the provisions of Division of Revenue Act, 2002.

The Minister for Provincial and Local Government will finalise the division of powers and functions between category B and C municipalities in 2002. Any shifts in the functions of municipalities will impact on the 2003/04 and 2004/05 allocations of the equitable share that are indicatively published in 2002/03.

Prioritising nodal municipalities

From the 2001/02 financial year, national government prioritised the funding of the rural development and urban renewal programmes. In 2002/03 a new element is introduced in the **S** grant to allow for the prioritisation of areas identified in the Integrated Sustainable Rural Development Programme and Urban Renewal Programme. Amounts of R200 million, R212 million and R225 million in 2002/03, 2003/04 and 2004/05 will be redirected towards the nodes, enhancing their capacity to fund the provision of basic services.

The additional equitable share allocation will be split between the existing 13 rural nodes and the 8 urban nodes as follows:

- Rural nodes receive 65 per cent (R130 million, R137,8 million and R146,2 million over MTEF period), and
- Urban nodes receive 35 per cent (R70 million, R74,2 million and R78,7 million over MTEF period).

The additional equitable share funds allocated to the rural nodes will be allocated as follows:

Table E15 Additional funds to rural nodes

Rural Nodes R Thousand	Code	Province	2002/03	2003/04	2004/05
Chris Hani/North East	DC13	EC	15 893	16 508	17 029
Ukwahlamba	DC14	EC	10 412	10 508	10 383
OR Tambo	DC15	EC	29 247	30 962	32 802
Alfred Nzo/E.G. Kei	DC44	EC	9 987	11 124	12 589
Thabo Mofutsanyane	DC19	FS	9 699	10 401	10 859
Ugu	DC21	KZN	8 634	8 552	8 202
Umzinyathi	DC24	KZN	1 489	1 478	1 423
Zululand	DC26	KZN	5 068	5 668	6 447
Umkhanyakude	DC27	KZN	7 223	8 017	9 033
Kalahari-Kgalagadi	CBDC1	NC	5 240	5 491	5 736
Sekhukhune	CBDC3	NP	17 678	19 225	21 113
Eastern Municipality	CBDC4	NP	7 876	8 212	8 871
Central Karoo (WC)	DC5	WC	1 555	1 653	1 762
Total			**130 000**	**137 800**	**146 250**

The additional equitable share funds allocated to the urban nodes will be allocated as follows:

Table E16 Additional funds to urban nodes

Urban Node	Municipality	Province	Nodal population	Municipal population	Node value	2002/03	2003/04 R thousand	2004/05
Mdantsane	Buffalo City	EC	250 000	781 213	0,.9	13 008	14 012	15 297
Motherwell	Nelson Mandela	EC	320 000	1 113 261	1,0	12 726	13 391	14 070
Alexandra	Johannesburg	GP	350 000	2 925 488	1,2	11 556	12 151	12 723
Inanda	eThekwini	KZN	199 291	3 059 012	1,1	7 858	8 389	9 007
Kwamashu	eThekwini	KZN	142 000	3 059 012	1,2	6 108	6 521	7 001
Galeshewe	Kimberley	NC	120 000	216 905	1,4	5 278	5 553	5 821
Khayalitsha	Cape Town	WC	600 000	2 798 968	0,8	8 851	9 334	9 745
Mitchell's Plain	Cape Town	WC	265 383	2 798 968	1,0	4 614	4 850	5 086
Total						**70 000**	**74 200**	**78 750**

Equitable share distribution

The equitable share allocation is generally distributed directly to Category A and B municipalities. The exceptions to this rule are:

- Category C municipalities that qualify for the I grant
- District management areas in which there is no Category B municipality and the Category C municipality carries out the relevant functions
- Category B municipalities that have limited treasury functions, in which case the relevant Category C municipalities can manage this allocation on their behalf.
- Category C municipalities which have the authority to provide basic services directly. The S grant component will continue to be calculated by formula for Category B municipalities, subject to the resolution of the powers and functions of Category B and C municipalities respectively. In instances where Category C municipalities provide basic services, the relevant portion of the allocation calculated for a Category B municipality is allocated to the Category C municipality. In some instances, it is not possible to divide the allocations with certainty. In these cases, and in accordance with the principles of cooperative governance set out in the Constitution and the Division of Revenue Act, 2002, negotiations between municipalities and with the assistance of provincial governments, will be entered into in terms of a framework determined by the Minister for Provincial and Local Government. A failure to reach an acceptable resolution will result in a determination on the division of an allocation being made by national government.

Guaranteed amounts

To prevent serious disruptions in services of municipalities that face substantial declines in transfers as a result of the equitable share formula, municipalities are guaranteed to receive at least 70 percent of the allocation of the previous year. Municipalities received either the **I** plus **S** grant or the guaranteed amount, whichever is the greater. R293 grant allocations are additional to the guaranteed amount for 2001/02 to 2003/04. From 2004/05, the R293 grant allocations will be incorporated into the formula and the guarantee will only apply to these total formula allocations.

Conditional grants to local government

Schedule 5 of the Division of Revenue Bill presents the conditional grants to municipalities. Conditional grants are a small but significant portion of municipal revenue. In particular, conditional grants are used to:

- Incorporate national priorities in municipal budgets
- Promote national norms and standards
- Effect transition by supporting capacity-building and restructuring of municipalities, and
- Address backlogs and regional disparities in municipal infrastructure.

Allocations for conditional grants will rise over the medium term, reflecting the priority attached to the extension of municipal infrastructure. Significant changes are introduced in the policy framework underlying some grants, particularly in infrastructure and capacity building. Below is a summary of all the conditional grants listed in Schedule 5 and 6 of the Division of Revenue Bill 2002.

Capacity-building grants

Many municipalities lack financial management, planning and project management capacity. Several grants support municipal capacity-building.

The range of programmes administered by different national departments is fragmented and has not delivered substantial improvements in municipal capacity to date. Government intends to move toward one consolidated local government capacity-building programme, governed jointly by a multi-departmental team at the national level. A rationalised, coordinated approach toward municipal capacity-building will:

- Encourage national departments to be more transparent about their capacity-building programmes and provide measurable outputs in this regard
- Stabilise municipal budgets and build strong financial management practices upon which other reforms can be implemented and infrastructure and services expanded
- Foster linkages between integrated development planning, spatial planning, and the budget process, and
- Develop project management skills in municipalities.

The Municipal Systems Improvement Programme was created in the 2001 Budget to move towards consolidation of these capacity-building initiatives. In the 2002 Budget, funds are redirected from the Local Government Support Grant and the Restructuring Grant to the Municipal Systems Improvement Programme.

An interim framework for municipal capacity-building allocations will regulate procedures for aligning these allocations into a consolidated grant by 2005/06. The framework provides for multi-departmental teams in the national and provincial spheres to oversee and manage the capacity-building programme, initially prioritising financial management and reform, strategic management and service delivery skills.

Restructuring grants

Restructuring support to large and smaller municipalities is effected through the Restructuring Grant and Local Government Support Grant. The Restructuring Grant provides an opportunity for large municipalities to access funding to implement medium-term fiscal and institutional restructuring exercises, on the basis of their own restructuring plans. It is a demand-driven grant that encourages municipalities to become financially self-sustaining. The Local Government Support Grant is a provincial grant to assist smaller municipalities in financial crisis through management support and emergency funding. The grant is increasingly focused on assisting these municipalities to restructure their medium-term fiscal positions and thus avert future crises.

Both grant programmes are projected to decrease in the medium term, due to limited take-up of funding to date and the implementation of strategic capacity-building programmes.

Table E17 Capacity building and recurrent transfers

R millions	2001/02	2002/03	2003/04	2004/05
Restructuring grant	350	300	315	343
Financial management grant	60	154	162	149
Disaster Relief	3	—	—	—
Municipal System Improvement	43	93	100	132
Total capacity building & recurrent transfers	**456**	**548**	**577**	**624**

Capital transfers to local government

Studies of municipal infrastructure grant disbursements have identified the need to rationalise the number of grants and to improve mechanisms for disbursement. These proposals come in response to problems of inequity in grant distributions, as well as flaws in arrangements for financial accountability identified by National Treasury and the Auditor-General. Rationalising and decentralising disbursement arrangements will offer clear benefits for the sustainability of infrastructure investments, transparency of allocations, and accountability for outcomes.

The rationalisation of the capital transfers to municipalities through the incorporation of other capital grants into CMIP is expected to be complete by 2004/05. These grants include the Community Water Supply and Sanitation Programme, Community Based Public Works Programme, Urban Transport Fund and Local Economic Development Fund. A framework for the phased consolidation of these programmes will be published shortly and placed on the National Treasury's website. The framework will also address the roles and relationships between infrastructure grants, municipal own revenue (such as that derived from RSC levies) and municipal borrowing.

The Consolidated Municipal Infrastructure Programme (CMIP) has been transformed from a project-based to a formula-based mechanism in the 2001/02 financial year. This will serve as a framework for one capital infrastructure grant governed by an interdepartmental team. Consolidation of transfers and greater transparency in the allocation process will allow challenges related to coordination between the infrastructure and housing programmes to be addressed.

Table E18 Capital transfers to local government

R millions	2001/02	2002/03	2003/04	2004/05
Consolidated Municipal Infrastructure Programme	927	1 655	2 096	2 374
Water Services Project	758	884	1 012	818
Community Based Public Works Programme1	349	257	254	290
Local Ecomomic Development Fund[1]	99	99	117	127
Sport & Recreation facilities[1]	36	84	123	137
National Electrification Programme	—	228	210	210
Urban Transport Fund	38	40	41	44
Integrated Sustainable Rural Development	33	32	—	—
Total capital	2 241	3 279	3 853	4 000

1. Allocations in 2004/05 are subject to review by Cabinet of all poverty relief programmes.

As CMIP is the most appropriate vehicle for a rationalised capital grant programme CMIP funding is expected to increase to R2 374 million in 2004/05. This will enhance assistance to municipalities in extending basic infrastructure services. The scope of CMIP funding will be expanded to include the rehabilitation of existing infrastructure as well as infrastructure extension. CMIP funding is already no longer restricted to bulk and connector infrastructure only, although it continues to support housing programmes.

Consultations over the implementation of the reforms to conditional grants are being concluded, and will be implemented in the 2002 Budget. These reforms include:

- Appropriate phasing of the consolidation of infrastructure grants into a single, large grant to begin in the 2003/04 financial year
- Development of a framework for coordination and consolidation of capacity building grants
- Incorporation of grants-in-kind, such as the Water Services Operating Subsidy, into the equitable share for local government.

The result of this process will be a simpler system of three or four large funding windows that respond directly to government's key policy objectives. Consolidation will improve coordination between objectives, provide an easier framework for administration and the measurement of performance, and ensure that distribution of grants among municipalities is transparent, predictable, policy-sensitive and fair.

APPENDIX E1: FRAMEWORKS FOR CONDITIONAL GRANTS TO PROVINCES

Appendix E1: Frameworks for Conditional Grants to Provinces

Detailed Frameworks on Schedule 3, 4 and 6 Grants to Provinces

Introduction

This appendix provides a brief description of the framework for each grant in Schedules 3, 4 and 6 of Bill to provinces. The following are key areas considered for each grant:

- Purpose and measurable objectives of the grant
- Conditions of the grant (additional to what is required in the Bill)
- Criteria for allocation among provinces or municipalities
- Rationale for funding through a conditional grant
- Monitoring mechanisms
- Past performance
- The projected life of the grant, when applicable
- The payment schedule
- Capacity and preparedness of the transferring department
- Commitment by national departments

Health grants

Table 1 Summary of Health Grants

	2001/02	2002/03	2003/04	2004/05
	Revised	Medium-term estimates		
R thousand	estimate			
National Tertiary Services	3 459 594	3 666 842	3 892 849	4 151 542
Health Professions Training and Development	1 234 090	1 279 248	1 299 475	1 393 366
Hospital Revitilisation	500 000	520 000	543 400	576 004
Durban and Umtata hospitals	103 800	—	—	—
Pretoria Academic Hospital	50 000	70 000	90 000	—
HIV/Aids	54 398	157 209	266 576	380 480
Integrated Nutrition Programme	582 411	582 411	582 411	617 356
Hospital Management Improvement	79 000	124 000	130 000	137 800
Total	**6 063 293**	**6 399 710**	**6 804 711**	**7 256 548**

National Tertiary Services Grant	
Transferring department	Health (Vote 16)
Purpose	• To fund national tertiary services, as identified and costed by the Department of Health (DOH) • To ensure equitable access by all South Africans to basic level of tertiary health care • To ensure nationally coordinated planning for tertiary services
Measurable outputs	• Improvement in management information for identified hospitals • Number of admissions, outpatients and day cases per specialised service unit • Number of treated patients from outside each province
Conditions	• Progress with the creation of a separate cost and management centre for each hospital • Progress with the appointment of a chief executive officer for each hospital identified • Progress towards the delegation of management, accounting officer, procurement, hiring, disciplining and dismissal powers to chief executive officer • Provision of designated national tertiary services • Provision of services at activity levels as agreed between the Province and the national DOH
Allocation Criteria	• Cost of designated national tertiary services standardised between provinces to ensure "like for like" funding • Non-personnel costs based on service delivery levels • Should a province provide less than the agreed services, funding will be reduced accordingly
Reason not incorporated in equitable share	• Tertiary services have spill-over benefits and need to be planned nationally • These services benefit other provinces and the spillover costs cannot be covered by the equitable share formula
Monitoring mechanisms	• To be determined by the national DOH by 12 April 2002
Past performance	• New consolidated grant initiated in 2002/03 from the previous central hospital and redistribution grants • The central hospital grant provided disproportionate benefits for receiving provinces. The new funding mechanism will allow for all provinces to benefit • Funds have been flowing to provinces according to payment schedules as these funds form part of general recurrent funding within the health budget
Projected life	• The need to support the provision of tertiary services in provinces will continue into the foreseeable future • The planning of the service configuration and the basis for the calculation of the grant will be constantly reviewed
Payment schedule	• Equal monthly instalments — normally on the 10th day of the month
Capacity and preparedness of the transferring department	• The grant funds existing services and ongoing activities so the capacity to spend is in place The national Department of Health has a designated unit to monitor the grant There is a constant need to improve information on actual service delivery and costs to facilitate monitoring and planning
Work by national department for 2003/04 Budget	• Finalise long term plan for specific tertiary services

Table 2 National Tertiary Services Grant

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	62 373	123 746	190 516	264 303
Free State	249 813	287 424	327 915	373 245
Gauteng	1 568 945	1 602 981	1 636 902	1 678 625
KwaZulu-Natal	427 525	480 679	537 752	601 853
Mpumalanga	44 102	38 413	39 237	40 249
Northern Cape	16 700	24 062	32 052	40 908
Northern Province	44 500	44 838	45 116	45 545
North West	34 200	34 189	34 107	34 111
Western Cape	1 011 436	1 030 510	1 049 252	1 072 703
Total	**3 459 594**	**3 666 842**	**3 892 849**	**4 151 542**

Health Professions Training and Development Grant	
Transferring department	Health (Vote 16)
Purpose	• Support the training of health professionals • Support provinces to fund service costs associated with undergraduate and post-graduate remedial students training • Development and recruitment of medical specialists in under-served provinces • Enable shifting of some teaching activities from central hospitals to regional and district facilities
Measurable outputs	• Number and composition of health science students by province and institution • Location of practical training placements by discipline and institution by level • Expanded specialist and teaching infrastructure in target provinces
Conditions	• Each province to supply information as required by the national DOH, on the training of all medical personnel by institution • Deployment of additional registrars and specialists to gaining provinces and institutions in terms of the plan agreed to by provinces and national DOH • Provinces to create and budget for additional posts related to registrars and specialists as agreed with national DOH and the deans of medical faculties in universities • Timely submission of monitoring information as agreed with national DOH. This should include annual reports on additional numbers of registrars and specialists in gaining provinces • Provinces to budget for community service posts as mutually agreed with the national DOH
Allocation criteria	• A specific increment has been allocated to provinces without medical schools to develop specialist and teaching capacity • The remaining funds are divided between the five provinces with medical schools on the basis of proportion of medical undergraduates; ten per cent of the remainder is divided equally between the four provinces without medical school • Target allocations per province to be phased in over 5 year period, subject to annual review to accelerate the phase in period
Reason not incorporated in equitable share	• Grant primarily targets certain provinces, which currently provide the bulk of health professionals training nationally • Expansion and shifting of location of teaching activities requires national coordination
Monitoring mechanisms	• Quarterly and annual reporting by provinces on number of students enrolled by discipline, level and training institution (frequency to be significantly decreased once national DOH has adequate database) • Quarterly and annual reporting by provinces on the number and duration of practical placements by health sciences students by type/level of health facility (frequency may be significantly decreased once national DOH has adequate database) • Quarterly and annual reporting by targeted provinces on achievement of planned expansion of specialist and teaching infrastructure • National department reports monthly on transfers
Past performance	• Funds have been flowing to provinces according to payment schedules as these funds form part of general recurrent funding within the health budget
Projected life	• The need to compensate provinces undertaking the bulk of training is likely to continue for the foreseeable future, but ongoing review of this grant continues to improve its alignment with national human resource development policy
Payment schedule	• Equal monthly instalments — normally on the 10th working day
Capacity and preparedness of the transferring department	• The grant funds ongoing activities, so the capacity to spend is in place The department has designated an official to monitor the grant Increased emphasis is being placed on ensuring compliance with monitoring requirements
Work by national department for 2003/04 Budget	• Ensure co-ordination of medical personnel with deans of medical faculties at university, and with provincial health departments • Develop simple minimum format for business plans and monitoring requirements • Complete research to improve and reconfigure this grant • Table new proposals to progressively improve this grant

Table 3 Health Professions Training and Development Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	55 865	70 169	80 182	105 870
Free State	88 367	88 192	87 763	87 565
Gauteng	529 186	528 137	525 570	524 384
KwaZulu-Natal	154 388	160 495	156 178	179 303
Mpumalanga	24 377	30 347	34 456	45 277
Northern Cape	24 377	27 573	29 027	35 875
Northern Province	24 377	34 113	41 827	58 041
North West	24 377	32 058	37 806	51 077
Western Cape	308 776	308 164	306 666	305 974
Total	**1 234 090**	**1 279 248**	**1 299 475**	**1 393 366**

Hospital Revitalisation Grant	
Transferring department	Health (Vote 16)
Purpose	To transform and modernise hospitals in line with the national planning framework and to achieve sustainability
Measurable outputs	• Number of hospital facilities upgraded and revitalised
Conditions	• Compliance with Integrated Health Planning Framework and reporting requirements • Compliance with provincial priorities identified in the Strategic Position Statement • Allocations in outer years will be dependent on progressive increases in maintenance budgets • All additional projects must include broader revitalisation issues • Implement pilot projects as identified in project business cases • Plans for 2003/04 Budget to be submitted by 30 June or at a date to be determined by National Treasury. These plans should include full provincial strategic health services plan, providing detailed information on hospital capital and maintenance projects, as well as the priorities identified in Strategic Position Statement
Allocation criteria	• The results of the CSIR 1995 hospital facilities audit provided a basis for determining a backlog index, which is used as the basis for equitable division of funds between provinces • The capacity of the province to spend the funds also plays a role • Major capital construction or large projects identified as national priorities will also be funded from this grant
Reason not incorporated in equitable share	To ensure that provincial health departments transform and modernise the hospital sector in line with nationally agreed goals
Monitoring mechanisms	Monthly reporting on project implementation progress and financial flows to the national DOH
Past Performance	**2000/01** • All funds were transferred to provinces, which reported under-spending of about R77 million • Under-spending of the grant has occurred over the years, mainly due to inflexibility of the present grant structure and poor provincial cash flow projections • The grant has been used mainly for rehabilitation and maintenance of existing facilities rather than to support the restructuring of health facilities
	Projections for 2001/02 • Cash-flows of currently committed projects indicate that all funds will be spent, however, a small under-spending is expected
Projected life	• This capital programme is expected to take at least 10 years to implement. However, it will be subject to review as part of the overall infrastructure grant support to provinces
Payment schedule	• Four instalments — 18 April, 18 July, and 17 October, 2002, 16 January 2003
Capacity and preparedness of the transferring department	• The department is supported by the European Union (through resident consultants) and engages the services of the private sector to monitor progress in the implementation of the projects, and to provide necessary support to provinces
Work by National Department for 2003/04 Budget	• Develop a framework to consolidate this grant with health infrastructure and hospital management grant

Table 4 Hospital Revitilisation Grant

	2001/02	2002/03	2003/04	2004/05
	Revised	Medium-term estimates		
R thousand	estimate			
Eastern Cape	69 000	81 000	84 645	89 724
Free State	16 000	17 000	17 765	18 831
Gauteng	102 000	105 000	109 725	116 308
KwaZulu-Natal	87 000	90 000	94 050	99 693
Mpumalanga	43 000	45 000	47 025	49 847
Northern Cape	10 000	10 000	10 450	11 077
Northern Province	88 000	92 000	96 140	101 908
North West	56 000	50 000	52 250	55 385
Western Cape	29 000	30 000	31 350	33 231
Total	**500 000**	**520 000**	**543 400**	**576 004**

Construction Grant — Pretoria Academic Hospital	
Transferring department	Health (Vote 16)
Purpose	To contribute toward the funding of new construction for Pretoria Academic Hospital in Gauteng,
Measurable outputs	Completion of construction of hospital
Conditions	The Gauteng department of health will take full responsibility to fund future operational costs of the hospital
Allocation criteria	Grant targeted to specific provinces: — Pretoria Academic allocation is R70 million in 2002/03 and R90 million in 2003/04
Reason not incorporated in equitable share	This is a once-off grant designated for major construction.
Monitoring mechanisms	Status reports are received regularly and the construction site is visited every 2-3 months for progress assessment
Past performance	Conditional grants have been allocated for the construction of the Nkosi Albert Luthuli Academic hospital in KZN (Durban Academic) and Nelson Mandela Academic (Umtata) hospital in the Eastern Cape in the past three years
Projected life	Funding for Pretoria Academic phases out in 2003/04
Payment schedule	Four instalments — 18 April, 18 July, and 17 October, 2002, 16 January 2003
Capacity and preparedness of the transferring depart- ment	The national DOH is adequately prepared to monitor the implementation of this programme

	Hospital Management and Quality Improvement Grant
Transferring department	Health (Vote 16)
Purpose	• Improving management in hospitals including development of cost centre accounting systems, improved PFMA implementation and strengthened financial skills and capacity • Support quality of care interventions to substantially improve quality of hospital services
Measurable outputs	• Demonstrate progress with the delegation of personnel, financial and procurement functions to identified hospitals and associated capacity development • Demonstrate progress with the development, costing and implementation of standardised service packages particularly in district and regional hospitals and accompanying norms and standards • Quality improvements in all hospitals receiving funding including complaints procedures, patient satisfaction surveys, medical audit, morbidity and mortality reviews, hospital accreditation or other structured system of quality assessment, functioning hospital boards, implementation of standardised diagnostic and treatment protocols • Demonstrate progress towards appointment of Chief Executive Officers and Chief Financial Officers in hospitals or appropriate equivalent • Improvements in financial management systems, practices and reporting • Demonstrate progress with cost centre information systems
Conditions	• Demonstration of significant progress towards decentralisation of management before second payment • Implementation plan for cost centres before third payment • All hospitals funded to implement quality improvements specified in national policy on quality of care • The grant may be used in all hospitals and in association with Hospital Revitalisation projects
Allocation criteria	• Grant initially focuses on big budget hospitals, particularly tertiary hospitals, which are identified as pilots • Allocations in the initial years of the programme are biased towards provinces with major tertiary hospitals. Allocation criteria will be subject to review with the roll out of the programme
Reason not incorporated in equitable share	• Aligns the development of management capacity in the country's largest hospitals with management development in the revitalisation programme and the national tertiary services planning process • Hospital services oversight is a national DOH competence
Monitoring mechanisms	• Quarterly reports on progress with the implementation of hospital management improvement projects to the national Departments of Health, and National Treasury
Past performance	This programme was financed as part of the financial management grant administered by National Treasury in the current year. All major tertiary hospitals are included in the pilot project, improvement plans have been drawn, appointments for Chief Executive Officers have been made, progress is being made towards decentralisation of management and implementation of cost centre accounting in identified hospitals
Projected life	To be reviewed after four years
Payment schedule	Three instalments—30 April, 30 August, and 16 January
Capacity and preparedness of the transferring department	The national DOH already has monitoring systems in place to manage the hospital revitalisation program, and the hospital management development program
Possible changes to the Grant in 2003/04 Budget	Consideration for consolidating this grant with the hospital revitalisation grant

Table 5 Hospital Management and Quality Improvement Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	2 000	9 000	14 000	14 840
Free State	6 000	11 000	11 000	11 660
Gauteng	32 000	34 000	28 000	29 680
KwaZulu-Natal	16 000	19 000	17 000	18 020
Mpumalanga	2 000	8 000	12 000	12 720
Northern Cape	1 000	7 000	8 000	8 480
Northern Province	2 000	9 000	12 000	12 720
North West	2 000	8 000	11 000	11 660
Western Cape	16 000	19 000	17 000	18 020
Total	**79 000**	**124 000**	**130 000**	**137 800**

	Integrated Nutrition Programme
Transferring department	Health (Vote 16)
Purpose	To improve the nutritional status of South African children; specifically to enhance active learning capacity and improve school attendance of primary school learners from poor households
Measurable outputs	• Increase in the coverage of primary schools that qualify for the feeding programme • Increase in the coverage of planned school feeding days from 85 per cent to 100 per cent • Reduction in underweight, stunting and wasting among children under 5 years • Regular growth maintaining and promotion of children under 2 years old • Elimination of micro-nutrient deficiencies
Conditions	• Feeding in all primary schools serving poor areas is the priority of this grant • Compliance with standardisation criteria determined by the Director General including menus, feeding days, cost per meal • Creation of a specific subprogram to monitor expenditure • Greater role of school boards in monitoring program
Allocation criteria	• Population census (6—14 years) and the poverty gap data were used as poverty index to determine the allocations between provinces
Reason not incorporated in equitable share	This programme started, as Presidential Lead Project under the RDP. The RDP allocations became a conditional grant in order to ensure continued funding of this grant. Given the current concerns with the effectiveness of the programme, this funding mechanism is being reviewed
Monitoring mechanisms	• Provinces must report annually to the national DOH on the number of schools (per district) that qualify for the feeding programme, and the number of schools that are actually being reached by the feeding programme • Progress reports covering scope of funding • Monitoring visits
Past performance	**2000/01** • Although funds have been flowing as scheduled, under-spending has occurred at provincial level. It amounted to R48 million in 2000/01
	Projections for 2001/02 • Projects that all funds will be spent
Projected life	• Options will be considered for this grant following a comprehensive review of administrative problems and effectiveness of the grant
Payment schedule	Four instalments — 18 April, 18 July, and 17 October, 31 December
Capacity and preparedness of the transferring department	The department has a dedicated directorate for the administration of the program
Work by national department for 2003/04 Budget	• Review the effectiveness of the grant and propose options for improvement by 30 June 2002 in order to inform the 2003 Budget • Stepping-up of forensic and in-year random inspections to ensure grant reaches intended beneficiaries

Table 6 Integrated Nutrition Programme

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	131 838	131 838	131 838	139 748
Free State	39 394	39 394	39 394	41 758
Gauteng	54 673	54 673	54 673	57 953
KwaZulu-Natal	132 471	132 471	132 471	140 419
Mpumalanga	39 728	39 728	39 728	42 112
Northern Cape	10 096	10 096	10 096	10 702
Northern Province	106 032	106 032	106 032	112 394
North West	39 390	39 390	39 390	41 754
Western Cape	28 789	28 789	28 789	30 516
Total	**582 411**	**582 411**	**582 411**	**617 356**

HIV/Aids Grant — Health Department	
Transferring department	Health (Vote 16)
Purpose	To enable the social sector to develop an effective integrated response to the HIV/Aids epidemic, focusing on children infected and affected by HIV/Aids. The responsibility for health include: • Expanding access to voluntary HIV counselling and testing (VCT) • Funding 2 pilot sites of mother to child prevention programme per province and roll-out of programme once DOH is satisfied with performance in pilot sites • Strengthening of provincial programme management teams • Implementation of home based care as a management option • Implementation of step-down care as a management option
Measurable outputs	• Increased access to voluntary counselling and testing to 12,5 per cent of adult population aged between 15-49 years within three years, with specific targets for the youth and rural communities • Number of teachers trained as lay counsellors • Increase in the proportion of clinics, which have HIV testing facilities and counselling • Develop 200 home-based care teams over the next three years • Adecrease in the number of children born to HIV positive mothers • Well-established programme management teams within each province • Increase in the number of sites where step-down care option is established
Conditions	• Quarterly progress reports to be submitted • Clinics involved in administering PMTCT should be offering antenatal care (ANC) services • Provinces to detail program achievements and evaluation in annual reports • Expenditure codes must be established on financial system to monitor expenditure
Allocation criteria	Based on the national survey conducted in 1999 on the status and availability of voluntary counselling and testing in all provinces which also informed the decision to prioritise Eastern Cape, KZN, Northern Province and North West provinces
Reason not incorporated in equitable share	• National priority • Distribution of infection rates differs from equitable share distribution
Monitoring mechanisms	• System for quarterly reporting on progress is in place • Provincial liaison and technical support visits by members of the national DOH • Regular meetings of the National Steering Committee
Past performance	**2000/01** • All funds were transferred to provinces, and they reported under-spending of about 30 per cent • The reasons for under-spending were that the provinces received funds very late and lack of capacity building at the provinces • Lay counsellors and mentors have been trained towards implementation of VCT programme • Rapid test kits were purchased
	Projections for 2001/02 • Although spending is progressing slowly, provinces project that all funds will be spent
Projected life	For duration of the allocation
Payment schedule	Three instalments — 18 April, 15 August and 12 December 2002
Capacity and preparedness of the transferring department	The structures for planning, co-ordinating and monitoring the implementation of the programme are in place. The department is in the process of appointing additional staff, mainly co-ordinators at provincial and national level
Work by national department for 2003/04 Budget	• Develop clear set of indicators for program evaluation • Research problem of grant under-spending and table remedial measures

Table 7 HIV/Aids Grant to Provinces per Department

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Health	54 398	157 209	266 576	380 480
Education	63 500	142 000	117 400	124 924
Welfare	12 500	46 500	64 235	68 185
Total	**130 398**	**345 709**	**448 211**	**573 589**

Table 8 Health HIV/Aids Allocation

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	6 281	21 130	37 947	56 751
Free State	4 716	13 953	23 235	31 775
Gauteng	5 630	23 253	40 706	58 863
KwaZulu-Natal	13 924	39 260	63 523	88 996
Mpumalanga	4 659	15 606	25 621	34 852
Northern Cape	4 665	5 727	8 225	10 044
Northern Province	5 555	15 371	28 228	43 050
North West	4 640	14 149	24 449	34 827
Western Cape	4 328	8 760	14 642	21 322
Total	54 398	**157 209**	**266 576**	**380 480**

Education Grants

	Financial Management and Quality Enhancement
Transferring department	Education (Vote 15)
Purpose	To improve financial management in the education system and improve the quality of education in schools
Measurable outputs	• Improved school effectiveness by prioritising district and school management and governance development, teacher development, and by targeting the identified areas for rural development and urban renewal • Improved school safety targeting crimes such as, drugs, vandalism, racism and also introducing youth development programmes such as music, sport, art and culture, including indigenous games • Improved matric results by targeting schools that obtained a pass rate of 0 — 30% in the 2001 matriculation • Improved learner participation in and the effective teaching of mathematics, science and technology, also targeting disadvantaged female learners to enter gateway subjects and critical professions • Improved assessment of learner performance in grades 3, 6 and 9 • Improved environment of schools in the nodal areas will be achieved through cleaning • Improved systems for the new General Education and Training Certificate and systems in the Further Education and Training Band will be realised • Development of effective Education Management Information Systems and utilisation for planning, financial management in the education system and learner support material procurement, supply and retrieval
Conditions	• The outputs as outlined in the approved business plans must be achieved • The conditional grant cannot be used to cover recurrent costs such as rates and taxes, salaries and to erect buildings
Allocation criteria	Education component of the provincial equitable share formula
Reason not incorporated in equitable share	Enables the national Department of Education to play an oversight role over the implementation of national education priorities for improvement in management and outputs of the education system
Monitoring mechanisms	• The Department of Education has scheduled inter-provincial meetings to be held once every two months to discuss progress on projects under this programme • On-site inspection visits by project managers • Performance monitoring and evaluation will be conducted by the national department in collaboration with provincial departments of education using mutually agreed upon criteria
Past performance	**2000/01** • Spending trends — all funds were transferred to provinces, but were not all spent, with under-spending amounting to R56,7 million • The department of education has established a management system that ensures timeous development of project plans and reporting on the grant • Implementation of national initiatives such as the preparations for the establishment of General Education and Training Certificate (GETC) across the education system and tools for assessing the performance of schools • Overall 9% improvement in the 2000 matric pass rate **Projections for 2001/02** • Higher expenditure on projects than in the previous financial year • Development of effective tools and mechanisms for learner assessment and the performance of schools in the education system • Development of an effective system to guide the process of the transformation of institutions in the FET sector
Projected life	The allocation of this grant is still envisaged to continue for at least the current MTEF years [2002/3 until 2004/05]
Capacity and preparedness of the transferring department	• The overall co-ordination of the programme is the responsibility of the Policy Support Directorate in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, chaired by the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant • Coordination with the Provincial Education Departments is realized through the inter-provincial meetings that happen every eight weeks. The individual project managers at national have also developed the own system of coordinating with the provinces
Payment schedule	Four instalments (5 April 2002, 5 July 2002, 4 October 2002 and 5 January 2003

Table 9 Financial Management and Quality Enhancement Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	39,405	41 500	43 367	45 969
Free State	13 419	14 132	14 768	15 654
Gauteng	26 199	27 591	28 833	30 563
KwaZulu-Natal	47 073	49 575	51 805	54 914
Mpumalanga	15 549	16 375	17 112	18 139
Northern Cape	4 047	4 262	4 454	4 721
Northern Province	33 441	35 218	36 803	39 011
North West	17 040	17 946	18 753	19 878
Western Cape	16 827	17 721	18 519	19 630
Total	**213 000**	**224 320**	**234 414**	**248 479**

Early Childhood Development Grant (ECD)	
Transferring department	Education (Vote 15)
Purpose	To provide children eligible for the Reception Year with access to a quality education and care program, particularly in poor communities
Measurable outputs	• 3,000 Licensed Grade R practitioners • 3,000 Registered community-based ECD sites • 90,000 Learners able to continue their learning in the Foundation Phase • 25 Training providers applied for accreditation • National Certificate in ECD • 3,000 Basic educational kit of learning materials for each learning site
Conditions	• The outcomes as outlined in the approved business plans must be achieved
Allocation criteria	Education component of the equitable share formula is used to allocate amongst provinces
Reason not incorporated in equitable share	Enables the Department of Education to provide overall direction such that congruency, coherence, and alignment with the agreed upon National ECD Strategy and the National Framework Plan for ECD is ensured, and also enables the Department of Education to play an oversight role over the implementation of the pilot ECD programme in Primary Schools and selected community based sites in the provinces
Monitoring mechanisms	**Quarterly reviews** • The Department of Education in collaboration with the responsible provincial officials will conduct these reviews. The reviews will be targeted at projects in which expenditure levels are lower or significantly higher than the projected figures in the business plans following an analysis of monthly cash flow statements on the projects. This exercise is intended to deal with difficulties in the implementation of projects by providing the necessary support in good time **Mid-year Review** • This is a substantive review exercise intended for all national and provincial projects under this programme. It will focus on the financial and programmatic issues on all projects with the view to assessing the impact and identifying key systemic problems that need to be confronted in the education system . There will be broad consultations between the national and provincial officials to finalise details on this matter
Past performance	• Grant introduced in 2001/02 budget **Projections for 2001/02:** • Financial and administrative systems are in place in the provinces to administer this programme • National and provincial coordinators contracted to support implementation of the project
Projected life	Conditional grant funding for this programme phases out in 2003/04, thereafter, it will be funded largely from equitable share
Payment schedule	Quarterly instalments (5 April, , 5 July, and 4 October 2002 and 5 January '03)
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education chaired by the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant

Table 10 Early Childhood Development Grant

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	3 885	9 620	16 280	—
Free State	1 323	3 276	5 544	—
Gauteng	2 583	6 396	10 824	—
KwaZulu-Natal	4 641	11 492	19 448	—
Mpumalanga	1 533	3 796	6 424	—
Northern Cape	399	988	1 672	—
Northern Province	3 297	8 164	13 816	—
North West	1 680	4 160	7 040	—
Western Cape	1 659	4 108	6 952	—
Total	**21 000**	**52 000**	**88 000**	**—**

HIV/Aids Grant — Education	
Transferring department	Education (Vote 15)
Purpose	• To ensure access to an appropriate and effective integrated system of prevention, care and support for children infected and affected by HIV/Aids • To deliver life skills and HIV/Aids education in primary and secondary schools
Measurable outputs	• An additional 200 Trained master trainers • An additional 15 000 Trained Primary and Secondary school teachers • Implementation of the life skills programmes in additional 35 per cent primary schools and secondary schools
Conditions	• The outcomes as outlined in the approved business plans must be achieved
Allocation criteria	Education component of the equitable share formula is used to allocate amongst provinces
Reason not incorporated in equitable share	To enable the Department of Education to provide overall direction such that congruency, coherence, and alignment with the National Strategy for HIV/Aids and the National Integrated Plan for Children Infected and Affected by HIV/Aids is ensured, and also enables the Department of Education to play an oversight role over the implementation of life skills programmes in primary and secondary schools
Monitoring mechanisms	• Departments of Education, Health and Social Development will schedule inter-departmental and inter-provincial meetings • Monitoring and evaluation will be conducted by the national Department of Education
Past performance	**2000/01** • Spending trends — 23 per cent of the allocation was spent • 11 HIV/Aids provincial coordinators have been appointed during this financial year. To improve communication with provincial coordinators, computers have been obtained **Projections for 2001/02** • HIV/Aids and life skills education is integrated in the school curriculum At least 50 Master trainers are being trained in each province, which in turn will train school teachers • 30 per cent of primary and secondary schools teachers are being trained and supplied with the relevant learning support material
Projected life	It is envisaged that, given the nature of the epidemic, the need for such a grant will be necessary as long as the epidemic of HIV/Aids
Payment schedule	Two instalments (1 April 2002 and 1 October 2002)
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, under the chairmanship of the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant

Table 11 Education HIV/Aids Allocation

	2001/02	2002/03	2003/04	2004/05
	Revised	Medium-term estimates		
R thousand	estimate			
Eastern Cape	11,747	26 270	21 719	23 111
Free State	4 001	8 946	7 396	7 870
Gauteng	7 810	17 466	14 440	15 366
KwaZulu-Natal	14 033	31 382	25 945	27 608
Mpumalanga	4 636	10 366	8 570	9 119
Northern Cape	1 207	2 698	2 231	2 374
Northern Province	9 969	22 294	18 432	19 613
North West	5 080	11 360	9 392	9 994
Western Cape	5 017	11 218	9 275	9 869
Total	63 500	142 000	117 400	124 924

Thuba Makote: Schools as Centers for Community Development — Poverty Relief Allocation (Indirect transfer)	
Transferring Department	Education (Vote: 15)
Purpose	To develop and pilot a cost effective approach to the design, construction and management of school facilities which will also meet the developmental needs of rural communities (ie The approach envisaged will be flexible and designed to be adapted to suit the particular needs of communities)
Measurable Outputs	• The programme will develop 27 schools in rural areas in each province identified as being of greatest need • Completion and hand over of first 9 pilot schools, 1 in each province, which were initiated in 2001/02 • An evaluation report on the success of the first 9 projects, recommendations used to finalise project • Proposals for 18 more schools • Construction of 18 multi-functional schools
Conditions	• The Thuba Makote Programme is funded from the Poverty Relief, Infrastructure Investment and Jobs Summit Projects Fund and must thus adhere to the requirements of job creation in the development, building, equipping and utilisation of facilities • The programme must include job opportunities for local people in the areas selected for the development of the centres and must ensure that women, the youth (younger than 25 years) and the disabled are included in employment • Skills training and transfer to the local people must be a major focus in the conceptualisation of the programme • Capacity building of the school community for the effective maintenance and management of the facilities must also be included in the programme
Allocation criteria	• For 2001/02 the amount was divided equally amongst the provinces • For 2002/03 and 2003/04 the backlog in infrastructure in provinces was taken into account in the division of the funding to provinces
Reason not incorporated in equitable share	The programme aims to develop and pilot models, which will provide a new approach to the design, construction and management of school facilities. It is therefore important to ensure that the programme provides innovations in these areas and it thus needs to be managed from a national level
Monitoring mechanisms	• The implementation of the projects will be monitored and supported through a steering committee comprising representatives from provincial education departments and other appropriate organisations • The national Department of Education will appoint an implementing agency for the programme *(consultant)* • Each pilot project site will be visited regularly by the consultant to monitor progress (infrastructure and institutional development), ensure appropriate quality control, minimise disturbance of educational activities in existing school facilities and avoid any injury to learners and staff as well as the general public • Monthly progress against milestones and expenditure against budget reports for approved pilot projects must be submitted by the consultant before or on the 7th day of each month to the programme manager of the national Department of Education. These reports must be in line with the PFMA reporting requirements. Monthly reporting on programme status is required from the first month of the contract duration • It is also required to compile and submit comprehensive quarterly reports to the Department of Education that must be in line with the reporting requirements set by National Treasury for the special allocations for poverty alleviation, infrastructure and job summit projects
Past Performance	Projections for 2001/2002: • The Department implements the project through an implementing agency. By the end of the financial year the first of the two planned phases for the current financial year will have been completed. This amounts to an estimated 10 per cent expenditure. A roll-over will be requested to fund the 9 building projects which have been committed through the tender • The tender process took longer than anticipated to complete. The remaining two tenders will be compiled in advance to ensure that spending for the remaining two years will be within the set time frames
Projected life	The allocation of this grant is still envisaged to continue until 2003/04
Payment schedule	Not applicable (Indirect Transfer) — accountability remains with the national department's accounting officer
Capacity and preparedness of the transferring department	• An implementing agency will be appointed • The Department of Education has established a Directorate: Physical Planning and has appointed the Director: Physical Planning as the Programme Manager of the project

Table 12 Thuba Makote: Schools as Centres for Community Development (Indirect Transfer)

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	5 400	5 000	10 700	—
Free State	5 300	5 000	10 700	—
Gauteng	5 300	4 000	5 300	—
KwaZulu-Natal	5 400	5 000	10 700	—
Mpumalanga	5 300	5 000	10 600	—
Northern Cape	5 300	—	—	—
Northern Province	5 400	5 000	10 700	—
North West	5 300	5 000	5 300	—
Western Cape	5 300	—	—	—
Total	**48 000**	**34 000**	**64 000**	—

National Ikhwelo Projects — Poverty Relief Allocation (Indirect Transfer)	
Transferring department	Education (Vote 15)
Purpose	The overall goal of the project is to provide access to skills development in General Education and Training for adult learners to enhance their social and economic capacity
Measurable outputs	• 450 Educators/trainers and employed to train adults agriculture and SMME learning programmes in addition to literacy • 9000 adults engaged in lifelong learning • 480 Governing bodies and center managers capacitated to govern and manage
Conditions	• The National Ikhwelo Project is funded from the Poverty Relief, Infrastructure Investment and Jobs Summit Projects Fund and must thus adhere to the requirements of job creation in the development, building, equipping and utilisation of the facility • The programme must include job opportunities for local people in the areas selected for the development of the centres and must ensure that women, the youth (younger than 25 years) and the disabled are included in employment
Allocation Criteria	The illiteracy rates in provinces as well as the socio-economic conditions of the provinces were taken into account
Reasons not incorporated in equitable share	Special allocation from the national Poverty Relief Fund
Monitoring mechanisms	• Quarterly progress reports in line with the reporting requirements set by National Treasury for the special allocations for poverty relief, infrastructure and job summit projects • National Committee of provincial Adult Basic Education and Training (ABET) heads together with the Directorate Adult Education and Training monitor and provide progress reports to the Director-General
Past Performance	**2000/01** • New project **Projections for 2001/02:** • It is expected that R14,8 million will be utilised by 31 March 2001 • During the 2001/02, learning support materials and training of educators in governance, agriculture, SMME, monitoring and evaluation will be provided. Furthermore, the procurement of learner support materials and equipment, advocacy, and learning programmes will take place during this financial year
Projected life	The allocation of this grant is still envisaged to continue until 2003/04
Payment Schedule	Not applicable (Indirect transfers to provinces) — Accounting responsibility lies with the accounting officer of the transferring national department
Capacity and preparedness of the transferring department	The overall co-ordination of the programme is the responsibility of the Chief Directorate: Curriculum and Assessment Development and Learner Achievement in the Department of Education. The Budget Review and Advisory Committee of the Department of Education, under the chairmanship of the Deputy Director-General: Planning and Monitoring, is overseeing the management of the grant

Table 13 National Ikhwelo Projects (Indirect Transfer)

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	4 625	7 400	9 250	—
Free State	1 575	2 520	3 150	—
Gauteng	3 075	4 920	6 150	—
KwaZulu-Natal	5 525	8 840	11 050	—
Mpumalanga	1 825	2 920	3 650	—
Northern Cape	475	760	950	—
Northern Province	3 925	6 280	7 850	—
North West	2 000	3 200	4 000	—
Western Cape	1 975	3 160	3 950	—
Total	**25 000**	**40 000**	**50 000**	**—**

National Treasury Grants

Provincial Infrastructure Grant	
Transferring department	National Treasury (Vote 8)
Purpose	To support construction, maintenance and rehabilitation of new and existing infrastructure, and to fund the reconstruction and rehabilitation of infrastructure damaged during the 1999/00 floods
Measurable outputs	• Rehabilitation, maintenance and construction of roads, schools, health facilities, and rural development • Rehabilitation of flood-damaged infrastructure
Conditions	• Submission of quarterly reports on physical progress with implementation of infrastructure projects in addition to monthly in year expenditure monitoring reports. Reported information should cover the full infrastructure budget in the province, not only the grant allocation • Progressive increase in the budget for maintenance for education, health, and roads infrastructure • Detailed provincial infrastructure spending plans for 2003/04 Budget to be submitted as part of strategic plans by 30 June, 2002 or at a date to be determined by the National Treasury • In addition to the above conditions, the following conditions apply specifically to the Flood Reconstruction and Rehabilitation portion of the grant: Funds allocated must be used exclusively for rehabilitation and reconstruction of flood damaged infrastructure as verified by the national government
Allocation criteria	• *The Infrastructure Grant component:* An average of the percentage equitable shares and backlog component of equitable share formula has been used to allocate among funds provinces. The aim is to introduce a bias in favour of provinces with substantial backlogs while at the same time supporting those that inherited substantial infrastructure • *The flood damage component::* The allocations were informed by the recommendations of the Command Center and took account of: — The overall verified infrastructure damage suffered in each province; — Recommendations made by the Command Center; — Expenditure trends in the current financial year, reflecting the rate of expenditure in the province; and — available funds — The flood damage component phases out in the 2003/04 financial year
Reason not incorporated in equitable share	This grant ensures that provinces give priority to infrastructure maintenance, rehabilitation and construction in line with Government priorities
Monitoring mechanisms	• Provinces are required to submit detailed quarterly reports, which capture the full details of the projects including the allocation for the year, the expenditure for the period in question and on outputs achieved
Past performance	**2000/01** • The R300 million allocations for infrastructure was used to support four provinces that were extensively affected by the flood disaster of 1999/2000 **Projections for 2001/02** • Spending on this grant started off very slow, it is expected that, there will be some under-spending, but with commitments already made on the allocations as spending plans are now in place
Projected life	To be reviewed after five years
Payment schedule	Four instalments: 24 May; 31 July; 31 October; 2002; and 23 January 2003
Capacity and preparedness of the transferring department	The National Treasury has a dedicated chief directorate responsible for administering the grant

Table 14 Provincial Infrastructure: Infrastructure Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	147 275	286 107	428 504	531 220
Free State	48 342	93 913	140 653	173 878
Gauteng	80 860	157 084	235 266	288 841
KwaZulu-Natal	170 447	331 123	495 925	612 837
Mpumalanga	61 236	118 961	178 168	220 569
Northern Cape	29 411	52 997	71 931	81 930
Northern Province	143 369	278 519	417 139	515 245
North West	69 536	135 086	202 320	250 472
Western Cape	49 524	96 210	144 094	177 848
Total	**800 000**	**1 550 000**	**2 314 000**	**2 852 840**

Table 15 Provincial Infrastructure: Flood Damage

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	130 000	70 000	23 000	—
Free State	128 000	58 000	21 000	—
Gauteng	—	—	—	—
KwaZulu-Natal	12 000	—	—	—
Mpumalanga	98 000	90 000	36 000	—
Northern Cape	7 000	—	—	—
Northern Province	196 000	182 000	120 000	—
North West	11 000	—	—	—
Western Cape	18 000	—	—	—
Total	**600 000**	**400 000**	**200 000**	—

Table 16 Provincial Infrastructure: Total Infrastructure Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	277 275	356 107	451 504	531 220
Free State	176 342	151 913	161 653	173 878
Gauteng	80 860	157 084	235 266	288 841
KwaZulu-Natal	182 447	331 123	495 925	612 837
Mpumalanga	159 236	208 961	214 168	220 569
Northern Cape	36 411	52 997	71 931	81 930
Northern Province	339 369	460 519	537 139	515 245
North West	80 536	135 086	202 320	250 472
Western Cape	67 524	96 210	144 094	177 848
Total	**1 400 000**	**1 950 000**	**2 514 000**	**2 852 840**

Housing grants

Housing Subsidy Grant	
Transferring department	Housing (Vote 17)
Purpose	To finance subsidies under the national housing programme
Measurable outputs	• Number of subsidies financed — estimates 200,000 in 2001/02 • Number of housing units completed per province • Number of households benefiting
Conditions	• Provincial housing departments to ensure that all subsidy allocations for 2002/03 are allocated by 30 April 2002, and that effective consultation takes place with every category B municipality with a project within its boundary. Consultations with relevant line function departments providing grants or services must also be completed • Provincial housing department to ensure that all subsidy allocations for 2003/04 are allocated by 30 October 2002, and 2004/05 by 31 May 2003, in consultation with every category B municipality, and in line with the Integrated Development Plan of that municipality and the category C municipality • Provincial Governments have to set aside 0,5% to 0,75% per year to finance desperate housing needs. This will be providing for people who have no access to land, no roof over their heads, and who are living in intolerable conditions or crisis situations and excludes needs as a result of disasters; • Provincial housing departments to ensure more municipalities are accredited to take responsibility for housing delivery from 2002/03 financial year • Housing allocations must be in terms of housing framework as agreed • Provinces to modernise and reform accounting and classification systems in line with a framework approved by the national departments of housing and the national treasury • Comprehensive reporting on expenditure on any transfers to municipalities or public entity • Submission of detailed provincial spending plans should be made as part of the as part of strategic plans to be submitted with the 2003/04 Budget proposals by 30 June, 2002 or at a date to be determined by the National Treasury
Allocation criteria	Two formulae are used to allocate the funds for the 2002 MTEF • The baseline allocations for provinces as reflected in the 2001 Division of Revenue Act remain unchanged and are allocated using a formula that is based on the number of households earning less than R3500 disaggregated into the different income category's for each subsidy level. The households in each income category are then weighted by the value of the subsidy amount for that income category • The additional R300 million in 2003/04 and R579 million in 2003/04, and the total allocation of R4 346 million in 2004/05 are allocated to provinces through a new formula, which introduces an urban bias. The new allocation formula is based on: — The needs of each province as measured by the housing backlog is a function of people who are homeless, staying in shacks, caravans, tents, backrooms and rooms in flats, and is assigned a weight of 50 per cent; — A poverty indicator as measured by the number of households earning less than R3 500 in each province and is weighted 30 per cent; and — A population indicator as measured by each province's share of total population using statistics from 1996 Census and is weighted 20 per cent
Reason not incorporated in equitable share	The provision of housing to the poor is a national priority. The conditional grant enables the national government to provide for the implementation of housing delivery in provincial budgets
Monitoring mechanisms	The national Department of Housing has installed a transversal computerised subsidy management system (HSS) in all provincial housing departments for the administration of the subsidy scheme and to allow the national department to monitor progress and expenditure continuously
Past performance	**2000/01** • The number of subsidies approved in the last three years averaged 219 591 per annum, while the number of houses built during the same period averaged 217 633 houses per annum, benefiting 2 676 886 people • Currently funds that remained unspent at provinces in 2000/01 and in the Housing Fund collectively amounted to R519 million or 15% of funds available for spending. These amounts include R240 million (for each of Gauteng, Mpumalanga and KwaZulu-Natal at R80 million) earmarked for the implementation of the Presidential Job Summit projects for new Rental Housing subsidies delayed as result of extended discussions with National Treasury on the funding model and institutional arrangements for channeling of the funds for the project **Projections for 2001/02** • R3,2 billion will be transferred to provinces of which approximately 95% is expected to be spent by the provinces at the end of the year
Projected life	Unless government directs otherwise and taking into account the level of backlogs in housing, it is anticipated that the need for funding will exist for at least 20 years
Payment schedule	Monthly instalments, depending on the rate of delivery
Capacity and preparedness of the transferring department	The national Department does have the capacity to manage and administer the transfer of housing funds to Provincial Governments and to monitor their performance in this regard continuously

Table 17 Housing Subsidy Grant

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	498 311	571 485	627 253	581 876
Free State	241 253	283 097	316 064	374 679
Gauteng	681 831	801 940	896 830	1 085 699
KwaZulu-Natal	617 647	708 759	778 263	727 186
Mpumalanga	208 355	242 038	268 228	288 030
Northern Cape	65 475	75 809	83 807	86 900
Northern Province	334 787	381 767	417 204	359 305
North West	256 735	302 001	337 769	409 400
Western Cape	321 564	372 778	412 480	433 357
Total	**3 225 958**	**3 739 674**	**4 137 898**	**4 346 432**

Human Resettlement and Redevelopment Pilot Programme	
Transferring department	Housing (Vote 17)
Purpose	To fund projects that aim to improve the quality of the environment by addressing problems in urban communities
Measurable outputs	• Improvement of the quality of human settlements by funding projects, which will address dysfunctionalities in such settlements. The outputs of the programme depend largely on the unique content of each project funded in terms of the pilot programme. They will include: — Upgraded infrastructure in depressed areas and number of employment opportunities created; — The number of existing depressed areas re-planned and redeveloped, such as inner city redevelopment, urban renewal and informal settlement upgrading; and — Completed plans of areas which could promote integration (new developments)
Conditions	• To form part of the contract between the provincial government and the national Department of Housing on specific projects • Provincial spending plans to be prepared as part of strategic plans to be submitted with the 2003 Budget proposals by 30 June 2002
Allocation criteria	Based on the project proposals submitted by province
Reason not incorporated in equitable share	As a pilot programme, the Department of Housing needs to be involved in approving, monitoring and evaluating the programme in general as well as specific project outputs with a view to the formulation of a more comprehensive permanent programme
Monitoring mechanisms	The Directorate: Special Programmes Support monitors projects on a monthly basis through financial and implementation progress reports, as well as site visits in order to ensure compliance and correct reporting on Key Performance Indicators
Past performance	**2000/01:** • Of R39 million budgeted, R35 million was spent. The outputs identifies in terms of key performance areas have been achieved **Projections for 2001/02** • It is expected that 70% to 80% of the funds will be spent by the end of the financial year, although all funds will have been committed to projects through approved business plans
Projected life	The programme is an important tool in achieving functional human settlements, it is expected to continue until all settlement areas that need improvements are covered
Payment schedule	Four quarterly instalments
Capacity and preparedness of the transferring department	The Directorate: Special Programme Support is dedicated to manage this Programme and the necessary capacity and expertise exists to undertake this task

Table 18 Human Resettlement and Redevelopment Grant

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	8 500	10 000	11 000	11 660
Free State	5 000	7 500	8 500	9 010
Gauteng	26 000	23 000	21 000	22 260
KwaZulu-Natal	25 000	25 000	26 000	27 560
Mpumalanga	5 000	6 000	7 000	7 420
Northern Cape	1 000	2 500	3 000	3 180
Northern Province	10 000	11 000	11 000	11 660
North West	7 000	6 000	8 000	8 480
Western Cape	12 500	13 000	13 500	14 310
Total	**100 000**	**104 000**	**109 000**	**115 540**

Social Development grants

Financial Management and Improvement of Social Security System	
Transferring department	Social Development (Vote 18)
Purpose	To improve the financial management, administration and functioning of social security system
Measurable outputs	• An improved communication network and information service on all grant inquiries to enable speedier response to beneficiaries • Provision of functional, acceptable infrastructure and office automation tools to improve security and facilitate effective service delivery • Effective and efficient financial management and administration of social security payments and social development funds
Conditions	Outputs in terms of approved business plans should be achieved
Allocation criteria	Based on needs of each province as determined from their business plans
Reason not incorporated in equitable share	Funding was initiated in order to fund the national department priority and strategy for improving the information system, financial management and delivery of social security grants
Monitoring mechanisms	• Monthly project progress reports by provinces
	• Quarterly evaluations by departmental staff and provincial facilitators • Structured site visits twice a year by a team consisting of both national and provincial officials
Past performance	Transfers of funds have occurred as planned since the inception of the grant in 1998/99
Projected life	Phases out in 2002/03
Payment schedule	Payments will be made in two tranches —in May and September 2001
Capacity and preparedness of the transferring department	• A number of initiatives being undertaken by the department will strengthen its capacity to deliver on the grant which include: — Restructuring of the department to strengthen its core functions including the establishment of a monitoring and evaluation unit for social security; — Appointment of financial expertise in the national and provincial departments to improve financial management in general and the management of conditional grants; and — Workshops on the Division of Revenue Act are expected to contribute towards improved management of the grants at the provincial level, including better reporting

Table 19 Financial Management and Improvement of Social Security System[1]

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	642	1 200	—	—
Free State	642	1 200	—	—
Gauteng	642	1 200	—	—
KwaZulu-Natal	642	1 200	—	—
Mpumalanga	642	1 200	—	—
Northern Cape	642	1 200	—	—
Northern Province	5 100	1 200	—	—
North West	642	1 200	—	—
Western Cape	642	1 200	—	—
Total	**10 236**	**10 800**	**—**	**—**

1. *The grant is phased out after 2002/03.*

Social Development—HIV/Aids Grant	
Transferring Department	Department of Social Development (Vote 18)
Purpose	The Department of Social Development is responsible for the development of home-based care (HBC) programmes in the community, involving the replication of models which have already been piloted, and community outreach
Measurable outputs	• An increase in the number of orphans receiving appropriate care • Intensified identification of children infected and affected by HIV/Aids • Provision of essential material assistance to identified children and families • Strengthening the capacities of communities, families and volunteers through caring and support • Provision of counselling services to children and families • Establishment of effective local institutional structures and partnerships for management and maintenance of home and community-based care and support programmes
Conditions	• Approved business plans with measurable outputs must exist for each province in line with the framework for this grant by 12 April 2002 • Legal contract signed between provincial departments of welfare and implementing agencies
Allocation criteria	• In developing the National Integrated Plan for HIV/Aids, the following were guiding principles: — Provinces in which studies have shown they are of highest HIV/Aids prevalence, which were also identified as priority — Eastern Cape, KZN, Northern Province and North West provinces — Resources available in the provinces and linkages with the following programmes and strategies: — Urban renewal and rural development strategy — Poverty alleviation programme — Integrated Nutrition Programme
Reason not incorporated in equitable share	• The National Integrated Plan for Children Infected and Affected by HIV/Aids is a pilot programme involving three social services departments • The conditional grant provides the opportunity to establish a consistent approach across the provinces in terms of planning and implementation, and also enables more effective monitoring by the national departments
Monitoring mechanisms	• Quarterly reporting by provinces and evaluation by Departmental staff/provincial coordinators • Provincial visits to evaluate implementation of the programmes that under way • Structured site visits twice a year by a team consisting of both Social Development and Health officials on the national and provincial level
Past performance	**2000/01** • R2 million of the allocated R5 million was spent by provinces **Projections for 2001/02** • Anticipates that all the allocated funds will be spent
Projected life	For the duration of the allocation
Payment schedule	Three instalments
Capacity and preparedness of the transferring department	The department has established a directorate do deal exclusively with HIV/Aids, a national co-ordination for the programme is managed by the DOH's provincial coordinators re being appointed

Table 20 Social Development HIV/Aids Allocation

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	1 500	4 697	6 488	6 887
Free State	1 500	6 510	8 993	9 546
Gauteng	1 000	6 836	9 443	10 023
KwaZulu-Natal	1 500	8 462	11 690	12 410
Mpumalanga	1 500	6 928	9 571	10 160
Northern Cape	1 500	2 604	3 597	3 818
Northern Province	1 500	3 069	4 240	4 500
North West	1 500	5 348	7 387	7 841
Western Cape	1 000	2 046	2 826	3 000
Total	**12 500**	**46 500**	**64 235**	**68 185**

Poverty Relief (Indirect transfer — Grant in Kind)	
Transferring department	Social Development (Vote 18)
Purpose	To increase the self-reliance and improve social cohesion of specific demographic groups such as women, youth, children disabled and aged who are particularly vulnerable to the conditions associated with poverty
Measurable outputs	• 100 HIV/Aids structures will be established by the end of the 2003/04 financial year • 144 Food production clusters will be established by the end of the 2003/04 financial year • 18 Urban Regeneration skills projects for youth and employment will be established by the end of the 2003/04 financial year • 100 Income generation initiatives for rural women will be established and existing ones integrated over the next three years • 100 dual-purpose projects encompassing children and the aged will be integrated into poverty programme over the next three years • Integration of the disabled in all poverty relief progrmmes by the end of the 2003/04 financial year • Micro save initiative rolled out to ensure a 60 per cent saving of social finances
Conditions	• Legal contracts signed between national programme officer of Department of Social Development and implementing agencies • Before any disbursement of funding, programme/projects must submit to the national department of Social Development the Compliance Certificate in terms of section 38 (1) *(j)* of the PFMA (Act no 1 of 1999) • Training funded by the allocation should be aimed at increasing the skills base in communities requiring accreditation • At least 2 per cent of all project beneficiaries should be disabled. This condition is a shift from the original plan • Programme in response to the requirements of disabled. This further enables a systematic integration of disabled into all poverty relief progrmmes
Allocation criteria	• Focuses on specific target groups and spatial pockets of poverty • Poverty levels per province (based on household expenditure) • The total population per province • About 30 per cent of the total budget was also allocated to the 13 poverty nodal points, identified by the Integrated Sustainable Rural Development Strategy (ISRDS)
Reason not incorporated in equitable share	• Special allocation to the department from the Poverty Relief fund
Monitoring mechanisms	• Monthly/quarterly reporting to the provincial welfare departments by implementing agencies, and consolidated reports submitted to the National Department of Social Development • Provincial visits to evaluate progress in the implementation of the projects • Structured sited visits twice a year by a team consisting of both national and provincial officials
Past performance	• All available funds for 2000/01 were transferred to the Independent Development Trust — department's implementation agency. Total transfers since the programme was initiated in 1998/99 amounts to R363 million
Projected life	The project period covered by the grant is the current MTEF (2001/02-2003/04) period
Capacity and preparedness of the transferring department	A National Manager for Poverty Relief Programme at Deputy Director-General level has been appointed to head the newly established National Project Office

Table 21 Poverty Relief (Indirect Transfer—Grant in Kind)

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	7 617	16 179	10 449	—
Free State	4 983	8 690	5 774	—
Gauteng	2 478	4 386	3 190	—
KwaZulu-Natal	8 117	17 429	11 274	—
Mpumalanga	5 058	10 446	6 874	—
Northern Cape	2 657	4 315	2 887	—
Northern Province	7 241	15 633	10 229	—
North West	4 483	8 646	5 827	—
Western Cape	2 238	3 811	2 942	—
Total	**44 872**	**89 535**	**59 446**	—

Department of Agriculture

Poverty Relief and Infrastructure Development	
Transferring Department	Agriculture (Vote 25)
Purpose	To address the degradation problems of natural resources and improve the socio-economic status of rural communities
Measurable outputs	• Rehabilitation of irrigation schemes to benefit small scale farmers • Rehabilitation and improvement in veld management • Reduction in depletion of soil fertility and soil acidity • Improvement in the production systems for small scale farmers
Conditions	Implementation of approved projects according to the project schedule
Allocation criteria	Based on submission of projects by provinces, with some bias towards the poorest provinces
Reason not incorporated in equitable share	The funding is from the special poverty allocation made by the national government
Monitoring mechanisms	• Provinces report monthly on implementation progress • Impact assessment to be undertaken in the current year
Past performance	**2000/01** • Allocation was under-spent by R6 million • Evaluation of completed projects is under way, and the report to be submitted to National Treasury in June 2002 **2001/02 projections** • Expect all funds to be spent, although in some other provinces they have been waiting for the rains to start, so that they could proceed with their projects without causing any degradation to the land and environment
Projected life	The grant is dependent on the projected life of the 'Poverty Relief and Infrastructure Development Fund' made by the national government
Payment schedule	To be transferred in three instalments — 50 per cent payment on 10 June, 25 per cent on 10 October 2002, and 25 per cent on 10 January 2003
Capacity and preparedness of the transferring department	All administrative, monitoring and reporting capacity is in place

Table 22 Poverty Relief and Infrastructure Development

	2001/02	2002/03	2003/04	2004/05
R thousand	**Revised estimate**	**Medium-term estimates**		
Eastern Cape	5 896	6 000	8 000	—
Free State	684	1 400	1 800	—
Gauteng	—	—	1 600	—
KwaZulu-Natal	5 285	4 000	6 500	—
Mpumalanga	1 747	2 000	3 500	—
Northern Cape	959	1 300	1 800	—
Northern Province	7 927	5 000	8 000	—
North West	5 000	3 000	5 000	—
Western Cape	878	1 300	1 800	—
Total	**28 376**	**24 000**	**38 000**	**—**

Department of Arts, Culture, Science and Technology

Poverty Alleviation (indirect transfer to provinces — grant in kind)	
Transferring Department	Department of Arts, Culture, Science and Technology (Vote 14)
Purpose	To fund Poverty Relief projects in the areas of Cultural Industries development, Cultural Tourism and Heritage Development
Measurable outputs	• Number of jobs created • Number of people trained • Equipment provided • Infrastructure for craft and heritage development
Conditions	• Provinces must submit project proposals which must demonstrate that the goals of poverty relief through job creation and training are met • Legal contracts signed between the DACST and provincial departments responsible for the arts and culture • Legal contracts signed between DACST and implementing agencies
Allocation criteria	The division of funds between provinces was made on the basis of the proposals submitted from the provinces The selection of projects was based on the following criteria: • Potential for job creation and/or training • Location in terms of the poverty nodes
Reason not incorporated in equitable share	• A special poverty alleviation allocation • Some projects cut across provinces i.e. CSIR and Khumbula-Zulu Craft projects
Monitoring mechanisms	• Monthly meetings in each province • Quarterly reports on progress and expenditure • Project site visits
Past performance	97 per cent of Poverty Alleviation allocation was spent in 2000/01
Projected life	The duration of Poverty Relief allocation
Payment schedule	Payments will be made in 1 to 3 instalments based on actual expenditure — Accounting responsibility lies with the Accounting Officer of the transferring national department
Capacity and preparedness of transferring department	A sub-directorate with dedicated staff is responsible for the programme and has the support of the line function directorate responsible for cultural development and heritage development

Table 23 Poverty Alleviation (Indirect Transfer—Grant in Kind)

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	3 297	2 985	9 297	—
Free State	1 941	1 971	4 803	—
Gauteng	587	4 597	2 000	—
KwaZulu-Natal	5 163	4 336	5 154	—
Mpumalanga	3 270	2 370	2 320	—
Northern Cape	3 156	2 307	2 548	—
Northern Province	1 531	1 770	2 314	—
North West	2 025	3 225	5 027	—
Western Cape	1 775	1 641	2 780	—
Unallocated	2 255	4 798	5 757	—
Total	**25 000**	**30 000**	**42 000**	—

Department of Provincial and Local Government Grants

	Local Government Support Grant (LGSG)
Transferring Department	Provincial and Local Government (Vote 5)
Purpose	To assist medium and small municipalities experiencing severe financial problems to restructure their financial positions and organisations over the medium term
Measurable Outputs	Although outputs will vary between municipalities, the following issues, inter alia, should be addressed: • Development and approval of a cash funded Operating Budget and the alignment of Capital Budget to IDP • Ensuring financial reporting processes take place accurately and timeously • Council approval and implementation of consolidated credit control, indigence and tariff policies • Approval of debt restructuring plans by creditors and implementation thereof by Council • Development of a stable financial base • Substantively unqualified and timeous audit reports The newly established municipalities receiving this grant should show significant progress in the above-mentioned areas — this progress will be monitored through quarterly progress reports
Conditions	• Submission of business plans by 30 April 2002 by provinces to the national transferring officer, stipulating the processes to be undertaken by the province in order to address the financial restructuring needs of municipalities • Any amendments to the provincial business plans can only be effected after prior approval of the national transferring officer has been obtained • Provinces must gazette allocations before transferring funds to municipalities • Reporting as required by applicable legislation as well as DPLG is adhered to • Adequate measures are put in place to ensure compliance with the conditions of the funds at municipal level
Allocation Criteria	Allocations are made to provinces according to assessed need in order to assist them in meeting their Constitutional obligation to support the local government sphere
Reason not incorporated in Equitable Share	According to section 154 (1) of the Constitution, the national government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions
Monitoring Mechanisms	The Department will expect quarterly reports on the progress made with the restructuring of municipalities, and monthly expenditure reports as required by the Division of Revenue Act
Past Performance	Before demarcation, over 170 municipalities benefited from support in the form of financial expertise and over 120 municipalities were able to implement structural adjustment programmes that positively affect their cash flow The programme has effectively reduced administrative backlogs at municipalities, reduced the number of financial statements outstanding to the Auditor-General and reduced the amounts outstanding to bulk creditors Compliance with conditions will be assessed through an audit process
Projected Life	This grant is transferred to provinces to assist them in building municipal capacity to carry out these functions directly. It will be phased out once such capacity has been established, and the funds transferred directly to municipalities. In the interim, the following conditions will apply to the utilisation of funds by provinces: • A province may not use the funds for the permanent employment of any capacity • 100% of all funds utilised should be directly attributable to support provided to a specific municipality, and reported on as such • Funds transferred on to municipalities must be gazetted in a provincial gazette in terms of the Division of Revenue Act
Payment Schedule	Monthly instalments
Capacity and Preparedness of Transferring Department	Extra capacity has been introduced by the Department to assist the department and provinces with the project management of this programme during the 2001/02 and 2002/03 municipal financial years There is an option available to retain the capacity for a further 12 months thereafter

Table 24 Local Government Support Grant

R thousand	2001/02 Revised estimate	2002/03	2003/04	2004/05
		Medium-term estimates		
Eastern Cape	28 800	31 200	29 350	26 300
Free State	25 600	26 450	24 650	22 100
Gauteng	8 200	9 450	8 450	7 600
KwaZulu-Natal	24 400	26 450	24 700	22 150
Mpumalanga	10 400	12 750	12 450	11 400
Northern Cape	14 700	15 550	15 100	13 550
Northern Province	14 400	15 100	14 650	13 350
North West	16 000	16 550	15 550	14 000
Western Cape	17 500	16 500	15 100	13 350
Total	**160 000**	**170 000**	**160 000**	**143 800**

Provincial Consolidated Municipal Infrastructure Programme (CMIP)	
Responsible department	Provincial and Local Government (Vote 5)
Purpose	To provide support to provinces to manage the CMIP effectively and efficiently in their respective provinces on behalf of the Department and to build the capacity of municipalities to ensure sustainability of CMIP projects
Funding windows	Programme management services and the building of capacity of Municipalities
Measurable outputs	To ensure that: • CMIP funds allocated to municipalities in a province are spent within a financial year and in terms of the Division of Revenue Act • all CMIP projects form part of the integrated planning processes of municipalities • proper coordination between all municipal infrastructure programmes in their respective provinces • all projects prioritised for CMIP funding by municipalities are aligned to provincial development plans • all municipalities comply with the conditions, targets and key performance indicators of CMIP • that the CMIP programme supports the Integrated Sustainable Rural Development Strategy, Urban Renewal Strategy, the Housing Programme and Local Economic Development within the provinces, and • to encourage and promote municipal service partnerships through the CMIP programme in their provinces • provinces should not create permanent financial obligations
Conditions	Conditions include: • Funds may only be used for capacity building of municipalities that benefit from CMIP to ensure sustainability of the infrastructure provided • Submission to the department of a business plan setting out clear objectives and outputs in respect of programme management and capacity building for CMIP in their respective provinces by 30 April 2002 • The submission of monthly and quarterly reports in respect of targets, key performance indicators and measurable outputs as required by the Department • The submission of monthly and quarterly reports to the Department in terms of the Division of Revenue Act
Allocation criteria	A capped amount from the CMIP grant as determined by the Department in consultation with National Treasury
Budget on which transfer is shown	The grant must be shown as a conditional grant on provincial budgets
Projected life	This grant is transferred to provinces to assist them in building municipal capacity to carry out these functions directly. It will be phased out once such capacity has been established, and the funds transferred directly to municipalities. In the interim, the following conditions will apply to the utilisation of funds by provinces: • A province may not use the funds for the permanent employment of any capacity • A minimum of 90% of all funds utilised should be directly attributable to support provided to a specific municipality, and reported on as such • Funds transferred on to municipalities must be gazetted in a provincial gazette in terms of the Division of Revenue Act
Capacity and preparedness of transferring department	The Department has an established grant and project management framework Further details are available on the Department's website (www.localgov.za)

Table 25 Provincial CMIP Management Support Grant

R thousand	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Eastern Cape	25 723	27 266	28 902	30 637
Free State	8 122	8 609	9 126	9 673
Gauteng	18 202	19 294	20 452	21 679
KwaZulu-Natal	13 511	14 322	15 181	16 092
Mpumalanga	5 660	5 999	6 358	6 740
Northern Cape	2 715	2 509	2 660	2 820
Northern Province	10 285	10 901	11 555	12 248
North West	6 812	7 221	7 654	8 113
Western Cape	7 884	8 357	8 858	9 390
Total	**98 914**	**104 478**	**110 747**	**117 392**

APPENDIX E2
FRAMEWORKS FOR CONDITIONAL GRANTS TO LOCAL GOVERNMENT

Appendix E2: Frameworks for Conditional Grants to Local Government

Detailed Frameworks on Schedule 5 and 6 Grants to Local Government

Introduction

This appendix is published to enhance the certainty, predictability and transparency of transfers from national government to municipalities. It provides information required in terms of the Division of Revenue Bill, 2002 on the framework for individual transfer programmes, allocations to each municipality benefiting from that programme, and strategic frameworks for the coordination of various transfers. Government's intention to restructure and rationalize grants to local government is being actively pursued in the forthcoming financial year. In this light, the structure of the new, consolidated grants is provided with a description of each of the existing grant windows which will be phased into the new grant programmes, as well as details of these transitional arrangements.

The frameworks for individual grants are set out below, classified into the three categories:

- Equitable share and related transfers.
- Municipal infrastructure grants.
- Municipal capacity building and restructuring grants.

Equitable share and related transfers

The equitable share to local government is the cornerstone of the system of intergovernmental transfers from the national sphere. This Constitutionally-protected share of nationally raised revenue emerged from the consolidation of a large number of conditional transfers from national and provincial governments. This transfer is not a conditional grant, as it provides general budgetary assistance to municipalities to exercise their powers and perform their functions, as allocated by the Constitution and subsidiary legislation.

Two smaller grant programmes exist within this category of transfers, and are scheduled for consolidation into the "core" local government equitable share in future years.

Local Government Transition Fund (LGTF)	
Transferring Department	Provincial and Local Government (Vote 5)
Purpose	To assist municipalities with significant once-off costs of amalgamating and establishing new structures following the municipal demarcation process
Measurable Outputs	Key Performance Indicators will be utilised to show progress. Although outputs will vary between municipalities, the following issues, inter alia, will be addressed: • Restructuring of Human Resources; • Standardisation of expenditure controls and financial reporting mechanisms; • Consolidation of financial data; • Standardisation of policies; • Co-ordination and, if necessary, standardisation of service delivery mechanisms; • Physical infrastructure needs for totally new municipalities. It is expected that over 75% of municipalities accessing the Transition Fund will have shown adequate progress against these and other KPI's and that any further assistance could be significantly more focused.
Conditions	In order to access the tranches of the Local Government Transitional Grant for the 2002/03 financial year, municipalities that complied with the conditions for the 2001/02 financial year must submit the following reports to the Department of Provincial and Local Government: • Monthly expenditure reports required in terms of the Division of Revenue Act; and • Quarterly meeting on pre-determined KPI's.
Allocation Criteria	Allocations will be provided to all municipalities for the 2002/03 financial year. These allocations are based on the estimated costs of the perceived impact of demarcation. Funds will be transferred on submission of proof of progress with the establishment process.
Monitoring System	Progress will be monitored through the submission of regular progress reports in addition to the requirements stipulated in section 17(1) and (2) of the Division of Revenue Act, 2001
Budget on which Transfer is Shown	The LGTF will be shown as a conditional grant in the municipal budget
Past Performance	Municipalities have been able to compile Interim Integrated Development Plans (IIDPs) and over 90% have submitted formal Establishment Plans. Selected municipalities visited have shown good progress and understanding of what was required for the implementation of the developmental local government system. A management audit will be undertaken in the new financial year as a final assessment of performance.
Projected Life	Funds will be incorporated into the equitable share from the 2003/04 national financial year.
Reason not incorporated in Equitable Share	The grant provides specific and conditional funding to meet identified transition costs, and is distributed on the basis of the extent of the amalgamation challenges faced by a municipality.
Capacity and Preparedness of Transferring Department	Extra capacity has been introduced by the Department to assist with the management of the Local Government Transition. The quarterly monitoring document for the evaluation of progress has been developed and will be circulated with the standard quarterly questionnaire to municipalities.

Water Services Operating Subsidy (via augmentation to the Water Trading Account)	
Transferring Department	Water Affairs and Forestry (Vote 33)
Purpose	To augment the Water Services Trading Account (Sub-Programme 4) of the Department of Water Affairs and Forestry Services. This allocation provides funding for the operation and maintenance of water schemes that are owned and/or operated by the department or by other agencies on behalf of the department. As water services provision is a functional competence of local government, the department will be transferring these schemes, with appropriate staff and budgets, to receiving municipalities. This grant will be converted into a direct conditional grant up to 2004/05 financial year to facilitate the transfer process, where after it will be incorporated into the local government equitable share from the 2005/06 financial year. In some cases transfers may be made to water service providers such as water boards.
Measurable outputs	Measurable outputs will be included in a comprehensive transfer plan to be developed and will include: ● Ongoing operation of water services schemes owned and/or operated by the department ● Improved revenue collection by 10% ● Develop and implement an appropriate billing system to support municipalities with cost recovery systems, including credit control and indigent policies in co-operation with DPLG, SALGA and National Treasury ● Functional and financial assessment of all schemes — by June 2002. ● Water Service Authority/Water Service Provider agreements in place by 30 September 2002 ● Ongoing support to local government to complete their WSDP's as input to their operating plans, budgets and IDP's ● Successful transfer of 10% of the schemes to municipalities and or water boards in 2002/03 ● Develop and implement, by 1 July 2002, an appropriate reward/incentive system for those municipalities who take early transfer of schemes, in co-operation with DPLG, SALGA and National Treasury.
Conditions	All receiving local governments will be required to enter formal service provision agreements (including provision for the payment of services rendered by the department) with the department by 30 September 2002. By 1 April 2003, no operating budgets will be provided unless there is a formal water service provision agreement between the department and the relevant municipality. Operating costs will be recovered from the municipalities and if necessary the interception of the equitable share where appropriate. CBO's, NGO's and Water Boards will also recover operating costs from municipalities with DWAF, DPLG and National Treasury providing them with appropriate support in this regard.
	The budget provided for the operation and maintenance of the schemes will initially be treated as a grant in kind until such time as transfer has been finalised. The grant will be used to facilitate the transfer of schemes and will be converted into a conditional grant in terms of the following programme: ● 2002/03 — Where transfer agreements are in place by 30 June 2002, schemes transferred during the year will be transferred with the remaining 3 year operating budget. ● 2003/04 — Where transfer agreements are in place by 30 June 2003, schemes transferred during the year will be transferred with the remaining 2 year operating budget. ● 2004/05 — Where transfer agreements are in place by 30 June 2004, schemes transferred during the year will be transferred with the remaining operating budget. ● 2005/06—All DWAF operating conditional grants for water schemes transferred to municipalities will be included in the equitable share allocation administered by DPLG.
Allocation criteria	Targeted at all departmentally owned schemes. The initial emphasis will be to concentrate on those schemes where the local authority is both willing and able to take transfer. Where schemes are operated and/or owned by CBO's, NGO's and Water Boards, local government will be required to enter into water service provision agreements.
Allocation by province and municipality	Allocat ions will be published in the gazette by 1 March 2002. Funds will be spent by the department until service provision agreement is in place. Allocations published in the gazette are only indicative figures.
Monitoring system	The Monitoring & Evaluation system for Transfers, which is being developed as part of the National Information System for Water Service will be used
Budget on which transfer is shown	The allocation is shown on the Water Affairs and Forestry vote, and classified as a Schedule 6 *(indirect)* transfer in terms of the Division of Revenue Act. It must only thus be noted on municipal budgets. Once water services agreement are in place, the transfer will be shown as a Schedule 5 conditional grant (or direct transfer) on municipal budgets, in recognition of the functional responsibility of local government with regard to the provision of water services. The allocation will be made to the authority taking transfer, which will mainly be to the Water Service Authority (WSA) but could also be to a water service provider. From 2005/06 the operating conditional grant will be administered by DPLG as part of the local government equitable share. The grant allocations are indicative amounts and must not be included in the relevant institutions revenue account.
Past Performance	Limited progress in terms of actual transfers completed to date.
Projected life	The basic programme is as follows: ● 2002/03 to 2004/05 — Implement the transfer programme and actual budgetary transfers where all preconditions have been met. DWAF to support local government to undertake detailed planning for water services operations. DWAF to continue service provision and/or hand over to other service providers where local authorities are unwilling or unable to take over service responsibilities. ● 2005/06—DWAF role as service provider terminated. Schemes not accepted by local government to be handed over and managed by service providers contracted by DWAF but funded and supervised by other appropriate institutions.

Water Services Operating Subsidy (via augmentation to the Water Trading Account)	
Reason not incorporated in equitable share	The grant will facilitate the transfer of water services schemes to municipalities, following which they will be incorporated into the equitable share.
Capacity and preparedness of transferring department	Implement the agreed policy and process for transfer. The department has established a National Transfer Task Team, supported by regional task teams to drive the process
Capacity and preparedness of receiving department	Varies significantly. Assessments will be carried out to rank all recipients as to their preparedness to accept transfer. The transfer to those local governments ready, willing and able will be given priority. This will be done in co-operation with DPLG and SALGA
Payment schedule	The payments will be made on a quarterly basis, in April, June, October and January to the amounts as agreed in the transfer agreement for each specific scheme/local authority

Municipal Infrastructure Grant

The phased consolidation of municipal infrastructure transfers into the Municipal Infrastructure Grant (MIG) will commence in the 2003/04 financial year. This consolidation programme is anticipated to finish by 2004/05. A policy framework and operating procedures for this grant will be published in July 2002.

Four windows will continue to exist within the Municipal Infrastructure Grant, until such time as all funds are phased into the new grant mechanism. These windows are listed below.

	Consolidated Municipal Infrastructure Programme(CMIP)
Responsible department	Provincial and Local Government (Vote 5)
Purpose	To provide internal bulk, connector, internal infrastructure and community services and facilities to low income households.
Funding windows	The programme will provide for new, rehabilitation and upgrading of existing infrastructure, special cases and new innovation.
Measurable outputs	Specific outputs will be determined by the projects prioritised by District Councils and Category B municipalities for which they want funding.
	The key outputs of the programme are: ● The quantity and quality of infrastructure developed ● Categories of projects funded 150 water, 60 sanitation, 50 roads projects per annum. ● Number of beneficiaries — 450 000 households serviced per annum ● Location of projects- equal split between urban and rural projects (Priority should be given to ISRDS and URS nodes.) ● Employment opportunities created and accredited training provided, number of woman and youth employed and trained (target 30% of each category.) ● SMME involvement —300 SMME's per annum utilised
Conditions	Conditions include: ● Funds may only be used for the specific municipal infrastructure investment it was intended for. ● The investment must become an asset of the municipality and maintained by the municipality ● Submission to the province and department of a business plan and municipal council resolution approving each project ● Must be allocated in accordance with the Division of Revenue Act ● All CMIP projects must comply with the conditions of the programme determined by the Department.
Allocation criteria	Allocated on a poverty-weighted formula including the number of poor households unemployment and the number of households without access to basic water services.
Budget on which transfer is shown	The grant must be shown as a conditional grant on municipal budgets.
Past performance	Extensive expansion of economic and social infrastructure to poor households through the CMIP programme. A total of 1,8 million households have been serviced since inception of the programme.
Projected life	The CMIP programme is a ten year programme of National Government
Reason not incorporated in equitable share	This is a specific capital transfer focussed on the national policy priority of ensuring all South Africans have access to at least a basic level of municipal services. Through the Infrastructure Programme Government directly supports the Integrated and Sustainable Rural Development Strategy (ISRDS) and the Urban Renewal Strategy (URS) as well as the Housing Programme. The Programme also demonstrates to municipalities how to redirect infrastructure investment to achieve developmental outcomes as well as new innovations that could be more cost effective and efficient to both municipality and community.
Capacity and preparedness of transferring department	The Department has an established grant and project management framework. Further details are available on the Department's website (www.local.gov.za)
Performance management	Upon provincial recommendation, the Department may submit to National Treasury an application for withdrawal and/or re-allocation of funds from one municipality to another, in the event of unsatisfactory performance, indecisiveness or inefficient utilisation of funds by a municipality

LED and Social Plan Measures Grant	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	To support planning and implementation of job creation and poverty alleviation projects. The following conditions apply: • The projects/business opportunity studies identified by municipalities must meet the criteria of the LED and Social Plan Measures Grant; • The project/study business plans will act as a contract between the Department of Provincial and Local Government (DPLG) and the municipality; • Municipalities must submit monthly reports in terms of the Division of Revenue Act 2001 and the Poverty Alleviation reporting requirements.
Measurable outputs	• Number of business opportunity studies completed • Number of short term jobs created • Number of long term jobs created • Person days of accredited/ unaccredited training • Business infrastructure developed e.g. business hives, arts and crafts centres, hydroponic tunnels, irrigation schemes etc • Financial and other support directed towards SMMEs
Conditions	Funds may only be committed to new projects once a formal agreement has been reached between the Department of Provincial and Local Government and the municipality regarding the ownership of the asset and ongoing financial responsibilities for operating and maintaining the project. Funds will be allocated in accordance with the Division of Revenue Act, with asset or funds transfer dependent on the capacity of the benefiting municipality.
Allocation criteria	The provincial allocation formula is based on provincial population (C) and three bias factors, namely: Poverty (E), Rural (G) and Women (I). The allocation percentage, J = (C+E+G+I)/4.
	The criteria for the division of municipal allocations is: • Alignment with Social Plan Fund studies and/or the Integrated Sustainable Rural development Strategy and/or the Urban Renewal Strategy. • Whether the project business plan meets the criteria of the LED Fund.
Allocation by province and municipality	Projects are allocated annual budgets. The payment schedule is. • An up-front instalment of 33% of the project/study value; • A further 1-2 instalments depending on the individual cash flow projections of each project. The last instalment will be paid during the second half of the year. • Non-compliance with the conditions of the grant and reporting requirements will result in the withholding of instalments.
Budget on which transfer is shown	The grant will be shown as a conditional grant on municipal budgets.
Projected life	Municipalities apply for funding for a maximum period of three years.
Reason not incorporated in equitable share	The developmental mandate for municipalities to promote social and economic development is relatively new. The LED and Social Plan Measures Grant is, therefore, a policy instrument in re-directing local government towards developmental outcomes. The establishment of the grant is intended to address large-scale job losses within the country and the targeting of poverty through the Poverty Alleviation Fund.
Capacity and preparedness of transferring department	The department has an established grant and project management framework.

Community Based Public Works Programme	
Transferring department	Department of Public Works (Vote 6)
Purpose	Creation of community assets in rural disadvantaged communities and empowerment of the communities to manage the facilities in co-operation with the local municipality. Employment of community during construction and promotion of long term jobs associated with the facilities
Measurable outputs	• Amount spent on community labour; • Number of Local Labourers employed; • Number of women employed; • Number of youth employed; • Number of disabled people employed; • Number and type of assets created; • Environmental target achieved.
Conditions	• Programme Management System/policy to be complied with; • Employment targets to be met; • Municipalities are required to place the CBPWP allocation on their budget; • Municipalities are required to operate and maintain the facilities; • Sustainability planning for all projects is required.
Allocation criteria	• The allocations are made within provinces in accordance with a Poverty Targeting Formula based upon the 1996 census and 1997 Household survey data. At least 30% of projects are to be situated within the government's Priority Areas. Municipalities identify their proposed projects in terms of their IDP's, which are then prioritised and submitted to the Provincial Coordination Committee for approval to enter the planning phase. • First payment made once implementing agent agreement signed between CBPWP and municipality. Thereafter, monthly on the basis of actual expenditure. • In some instances allocations are made as indirect transfers, via the Independent Development Trust and assets are transferred to municipalities once they are completed. These transfers are made as Schedule 6 transfers in the Division of Revenue Act.
Monitoring system	A Management Monitoring Information System has been introduced in terms of which monthly performance monitoring is carried out by the provinces, on the basis of monthly inspections and reporting provided by the municipalities.
Budget on which transfer is shown	The grant must be reflected on the receiving municipality's budget as reflected on Schedule 5 and indirect (Schedule 6) transfers must be noted as asset transfers in the asset registers of the municipalities
Past performance	• In 1998/99 No of projects = 338; Asset value = R267 million; People employed = 29360. • In 1999/00 No of projects = 291; Asset value = R320 million; People employed = 18 027. • In 200/01 No of projects = 950; Asset value = R244 million; People employed = 31 472.
Projected life	Duration of poverty relief allocation and thereafter ongoing as part of the Departments annual allocation
Reason not incorporated in equitable share	A conditional grant is necessary in order to ensure that appropriate facilities are created within target communities, that proper sustainability planning takes place and that employment targets are met
Capacity and preparedness of transferring department	A directorate has been dedicated to manage the programme with out-sourced programme management support and European Union technical management support
Grant fund	R259 million of which • R228 million is cash transfers directly to municipalities as per Schedule 5 • R 31 million is asset transfers to municipalities by IDT as per Schedule 6

Implementation of Water Service Projects (Capital)	
Transferring department	Water Affairs and Forestry (Vote 33)
Purpose	To fund bulk, connector and internal infrastructure for water services at a basic level of service, and implement such projects where municipalities lack the required capacity to do so. As water services provision is a functional competence for local government, the department will be transferring completed RDP projects, with no staff or operating budgets, to receiving municipalities.
Measurable outputs	A comprehensive reporting system has been developed for the capital works programme and the measurable outputs include: • Number of people served — 693 000 targeted • Number of projects completed and transferred- programmed 27 • Number of jobs created : 62 780 for all categories • Detailed monthly expenditure: R84 million/month on average • Number of business plans approved: 106 of all types • Number of people impacted through health and hygiene programme: 120 000 • Number of toilets constructed: 20 600 • Number of completed RDP projects transferred — 10%
Conditions	Before any conditional grants are made, the local government arm concerned must: • Have undertaken the necessary service planning (e.g. WSDP) and provided budgets for the ongoing operation and maintenance • Be in a position to undertake the implementation, operation and maintenance of the relevant water services. • Have established the mechanisms and structures for reporting to DWAF as required • All receiving local governments will be required to enter formal service provision agreements (including provision for payment of services rendered by the department) with the department by 30 September 2002.
Allocation criteria	The contractual commitments for ongoing projects as well as operate, train and transfer of existing completed projects not yet transferred will receive preference in the project selection process. New projects are then selected via the relevant planning forums per region on the basis of the regional allocation, which is based on a poverty-weighted formula with a strong rural focus. The Minister approves all projects earmarked for implementation, before the funding is formally delegated to the regions. All departmentally owed completed RDP projects will be subject to transfer
Allocation by municipality	Allocations will be gazetted by 1 March 2002. Funds will be spent by the department on committed and new projects until local government takes over the implementation of new projects. Outer year allocations are indicative only.
Monitoring system	Projects are managed and monitored internally by DWAF, some through contract driven Build Operate, Train and Transfer arrangements, unless the municipality has a demonstrable capacity to do so itself. This will be done in accordance of the above conditions and to allow DWAF to fulfil its role as Regulator.
Budget on which transfer is shown	The allocation is shown on the Water Affairs and Forestry vote. And is classified as a Schedule 6 *(indirect)* transfer in terms of the Division of Revenue Act. It should thus only be noted on municipal budgets and recorded in the municipal asset register on transfer. Once a funds transfer agreement is in place, the financial transfer will be shown as a Schedule 5 *(direct)* conditional grant on municipality budgets in recognition of the functional responsibility of Local Government with regard to the provision of Water Services. Asset transfer (grant —in —kind)
Past performance	Approximately 7,0 million people have been provided with access to basic water services to date, 365 projects completed and 63 transferred to municipalities. Due to lower allocations for sanitation projects, only 55 119 toilets have been constructed in the past five years
Projected life	On the basis of the above conditions, the department has proposed the following programme:
	2002/03 • Continue implementation of contractually committed projects • Initiate detailed planning and design for projects prioritised through local government planning process and local government management arrangements • Continue to initiate and implement planned and designed projects through existing DWAF management arrangements where there is an explicit agreement with local government, including acceptance of operating responsibilities • Support local government to start the process of consolidating and completing water service development plans as an input to their Infrastructure Investment Programmes • Indicate reporting of allocation of funds to municipal area down to Category C level • Develop with DPLG the system to ensure that funds allocated are used for the purposes intended in the respective line function areas. • Where agreed, and subject to the approval of DWAF Director-General, make conditional grant to municipalities for implementation of projects • DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over services responsibilities of already completed projects yet not transferred

	Implementation of Water Service Projects (Capital)
	2003/4 ● Finalise implementation of contractual committed projects ● Continue to implement (but not to initiate and design) already planned projects through existing DWAF management arrangements where there is explicit agreement with local government, including acceptance of operation responsibilities ● Support local government to undertake detailed planning and design for projects prioritised through local government planning process ● Definitive allocation of funds to municipal area down to Category B level. ● Implement and manage with DPLG systems to ensure that funds allocated are used for the purpose intended in the respective ministries. ● DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over services responsibilities of already completed projects not yet transferred
	2004/05 ● DWAF role in project implementation terminated (ongoing projects handed over to local management) ● Ongoing DWAF support to focus on planning and technical assistance ● All funds allocated to local government level, except where retained by DWAF for indicated purpose ● DWAF's ongoing role in oversight of capital spending programmes to be agreed by the respective ministries. ● DWAF to continue service provision and/ or hand over to other service provider where local authorities are unwilling or unable to take over services responsibilities of already completed projects not yet transferred
	2005/06 ● DWAF roles as service provider terminated. Projects not accepted by local government to be handed over and managed by services providers contracted by DWAF but funded and supervised by other appropriate Institutions.
Reason not incorporated in equitable share	This is a specific capital transfer focused on the national policy priority of ensuring all South Africans have access to safe water sources and acceptable sanitation systems.
Capacity and preparedness of transferring department	For implementation of Water Services Projects the Department has established grant and project management frameworks. For the completed RDP projects the department has established a National Transfer Task Team, supported by regional task teams to drive the process.
Capacity and preparedness of receiving department	Varies significantly. Assessment will be carried out to rank all recipients as to their preparedness to accept transfer. The transfer to those local governments ready, willing and able will be given priority. This will be done in co-operation with DPLG and SALGA.
Payment schedule	The payment will be made on quarterly basis, in April, June, October and January of the amounts as agreed in the funds transfer agreement for each specific project/local authority.

Building for Sport and Recreation Programme	
Transferring department	Sport & Recreation SA (Vote 18)
Purpose	Promotion of sport and recreation within disadvantaged communities by development of new and upgrading of existing sports facilities and empowerment of the communities to manage the facilities in co-operation with the local municipality. Employment of community during construction and promotion of long term jobs associated with the facilities
Measurable outputs	• Jobs created within the short and long term (maximum local community employment); • Number of existing facilities upgraded and new facilities constructed (50); • Value assessment of facilities constructed; • 50 communities empowered to promote sport and manage facilities; • 35 municipalities empowered to build appropriate sport facilities and promote sport within disadvantaged communities; • 30% of projects located within government's Priority Areas (in terms of Integrated Sustainable Rural Development Strategy)
Conditions	• Programme Management System/policy to be complied with. • Employment targets to be met. • Municipalities are required to place the BSRP allocation on their budget. • Municipalities are required to operate and maintain the facilities. • Sustainability planning for all projects is required.
Allocation criteria	The allocations are made within provinces in accordance with a Poverty Targeting Formula based upon the 1996 census and 1997 Household survey data. Allocations between District and Local municipalities are made on the basis of the intended regional scope of the facility and thus which authority is more appropriate to develop and maintain the facilities. At least 30% of projects are to be situated within the government's Priority Areas. The allocations are to provide a balance between rural and urban/peri urban disadvantaged communities. Municipalities identify their proposed projects in terms of their IDP's, which are then prioritised by the provincial departments of sport and recreation in line with provincial development priorities.
Allocation by province and municipality	As gazetted, with exemption granted for outer-year allocations due to recent introduction of programme.
Monitoring system	A Management Monitoring Information System has been introduced in terms of which monthly performance monitoring is carried out by the provinces, on the basis of monthly inspections and reporting provided by the municipalities.
Budget on which transfer is shown	The grant must be reflected on the receiving municipality's budget. The first payment will be made once the implementing agent agreement has been signed between SRSA and the municipality. Thereafter, payments will occur monthly on the basis of actual expenditure.
Past performance	First year of the programme—majority of projects already identified
Projected life	Duration of poverty relief allocation and thereafter ongoing as part of SRSA annual allocation
Reason not incorporated in equitable share	A conditional grant is necessary in order to ensure: • that appropriate facilities are created within target communities; • that proper sustainability planning takes place; • that municipalities and communities are empowered to promote sport; and • that employment targets are met.
Capacity and preparedness of transferring department	A directorate has been dedicated to manage the programme with out-sourced programme management support

Integrated Rural Development Programme (IRDP) Management and Implementation Grant	
Transferring Department	Provincial and Local Government (Vote 5)
Purpose	To support Integrated Sustainable Rural Development Strategy (ISRDS) nodal municipalities to establish institutional systems and nodal delivery teams for planning, project initiation and implementation of the IRDP.
Measurable Outputs	Measurable outputs include: • Institutional capacity to plan, manage and implement the ISRD programme in the nodal municipalities, • Completed IDPs for the nodes, and • Projects initiated for implementation in the nodes in line with IDPs.
Conditions	Conditions of the grant include: • Utilisation on the appointment of nodal delivery teams by municipalities and should be absorbed into the municipal structure beyond the two-year funding period • In the second year (2002/03) 60% and 40% should be utilised for project initiation and institutional costs respectively. • The grant should be utilised for once-off capital costs. • The grant should be utilised for the formulation of Integrated Development Plans (IDPs) • The grant should cover operational costs of PIMS-Centres up to a maximum of R900 000.
Allocation Criteria	• The grant will be allocated equally to all the 13 rural nodes, • The grant will be allocated over the two-year period (2001/02 and 2002/03), • The first year allocation will be used mostly for institutional costs including appointment of delivery teams in order to stabilize the municipalities in the nodes, and • The second year allocation will be mostly used for project initiation costs.
Budget on which transfer is shown	The budget will be transferred directly to District municipalities. In cases where the node is located at the local municipality level (Central Karoo and Thabo Mofutsanyana), the district and local municipal leaders will decide or agree on the percentage to be allocated to the nodal local municipality.
Past Performance	60% of the grant was utilised for nodal delivery support teams' salaries, capital costs and operational costs during the first year (2001/2002), while 40% of the grant was utilised for project initiation during the first year (2001/02). The number of projects initiated is one hundred and twenty two (122) of which 48% are at implementation stage while 52% are at planning stage. It is envisaged that the latter will commence implementation in April 2002 when funds are made available.
Projected Life	Started 2001/02 (December 2001) ending 2002/03.
Reason not incorporated in equitable share	Special grant to assist nodal district municipalities to establish institutional capacity in their areas to enable them to deliver on the ISRDP.
Capacity and preparedness of transferring department	The Department has appointed Independent Development Trust (IDT) as an agency to assist with the management and implementation of the ISRDP. A dedicated Departmental team responsible for the nodes has been approved by DPSA and some of the appointments have been effected.

Urban Transport Fund	
Transferring department	Transport (Vote 32)
Purpose	To promote the planning of intermodal land transport infrastructure and operations, the facilitation of integrated land use and land transport planning, the development of guidelines in this regard and to initiate demonstration projects in line with the Urban Transport Act, 1977.
Measurable outputs	• The integrated land use, land transport plans and planning section of the National Land Transport Transition Act (NLTTA) to be brought into effect on 1 April 2002. The 2002/03 financial year of the grant will be used to compile all National Land Transport Strategic Framework (NLTSF), all provincial NLTSF and integrated transport plans in Unicities. • Transport planning guidelines to be published by March 2002 by the Department of Transport • Demonstration projects — Transport Authorities in Durban by June 2002 and Bloemfontein by November 2002 • Infrastructure Improvement — Investment in Khayelitsha Rail Extension — Investment in Alexandra Urban Renewal — Baralink to be funded until March 2003 — Newtown (Mandela Bridge) — Wetton Lansdowne Corridor -Mabopane Station the creation of an intermodal facility
Conditions	• Submission of a business plan in line with the Urban Transport Act, 1977 and national priorities; The priorities are planning, research, demonstration projects on issues like transport authorities and infrastructure • Successful implementation of previously funded projects; • Preferably partly funded by provincial and local governments.
Allocation criteria	The grant is allocated to metropolitan and larger Category B municipalities, on the basis of priorities determined in terms of the National Land Transport Transition Act, 2000 and the Urban Transport Act, 1977.
Budget on which transfer is shown	The transfer must be shown as a conditional grant on municipal budgets.
Past performance	**Integrated Land Use And Land Transport Plans** Planning regulations and requirements are currently being prepared and the process being followed includes DPLG and Department of Land Affairs to ensure that the issues of the integrated land use is addressed in a holistic manner. **Transport Planning Guidelines** The preparation of guidelines and requirements for Integrated Transport Plans (ITP) is being addressed and it is envisaged that the requirements will be completed by 31 March 2002. The ITP guidelines will be finalised by June 2002. The guidelines and requirements for Metropolitan Current Public Transport Records (CPTRs) will have to be revised and finalised by June 2002. Thus the planning requirements and the regulations will be finalised by 31 March 2002. **Demonstration Projects** **1. TRANSPORT AUTHORITIES** • Durban: Funds have been committed and it is envisaged that the project will be finalised by June 2002. • Bloemfontein: This project will be finalised by November 2002. The business plans are being prepared and the commitment of the Council and the Province has been obtained. **2. DIAL-A-RIDE (Cape Town)** • This project is ongoing, however the commitment is only for the current financial year. **3. MODALINK** • This is a continuation of project funding provided in the 2001/02 financial year. **4. INFRASTRUCTURE IMPROVEMENT** • New projects were initiated like the Khayelitsha Rail Extension, Alexandra Urban Renewal, Baralink, Newtown (Mandela Bridge, and the Mabopane Station — Intermodal Facility.
Projected life	See measurable inputs for timeframes
Reason not incorporated in equitable share	National priorities are determined annually based on the National Department Business Plan.
Capacity and Preparedness of Transferring Department	The NDOT has the capacity to manage and monitor the business plans and contracts for the identified projects. However the successful implementation of these projects depends and is influenced by the capacity of the receiving authority.

National Electrification Programme	
Transferring department	Minerals and Energy (Vote 29).
Purpose	• To implement the National Electrification Programme through providing capital subsidies to Eskom and municipalities licensed as electricity distributors by the National Electricity Regulator to address the electrification backlog of permanently occupied residential dwellings that are situated in rural and proclaimed urban areas in the furtherance of electrification in historically under-supplied areas
Measurable outputs	The number of connections made in relation to the capital invested.95 000 household connections and 9 schools based on the budget allocation of R228.013 million to licensed municipalities.
Conditions	Distributors who receive funding must contractually undertake to: • Account for the allocated funds separately from their normal business • Pass all benefits derived from the scheme on to end-customers • Not utilise the fund for any purpose other than electrification • Adhere to the approved electrification programme and agreed cash flow budgets • Ring-fence their electricity accounts (initially supply accounts) • Adhere to the accounting and reporting requirements of the PFMA and DoRA
Allocation criteria	Allocations are made on the basis of project applications from licensed municipal distributors who: • Meet the requirements, e.g. in terms of documentation, approved tariffs, ring-fenced accounts • Have the financial, technical and staff capabilities to distribute electricity and to expand and maintain the network • Regularly pay their bulk supply account and are up-to-date with payments agreed to with the bulk supplier • Apply credit control effectively • Have consulted their communities in terms of the prescribed Integrated Development Planning (IDP) process
Allocation by province and municipality	Allocations to municipalities with valid electricity distribution licenses as gazetted.
Budget on which transfer is shown	The grant will be shown as a conditional grant on budgets of licensed municipalities.
Past performance	(Statistics given are per calendar year for the municipal electrification programme managed by NER) Year Number of Connections Capex R'million 1994 164 535 R 559 1995 150 454 R 444 1996 137 534 R 446 1997 213 768 R 504 1998 136 074 R 393 1999 144 043 R 385 2000 133 780 R 345
Projected life	The National Electrification Programme is ongoing and planned on a 3-year rolling basis in line with the MTEF. It aims at providing universal access to basic electricity services. Its projected life is 10 years subject to current backlog and historic funding levels.
Reason not incorporated in equitable share	This is a specific capital transfer in support of the National Electrification Programme.
Capacity and preparedness of transferring department	The DME takes full responsibility for the administration and control of the NEP.
2001/02 spending to December 2001	(NER-funded programme: Transfers based on verified claims after completion of approved projects.) R'million June R 3.734 July R 3.682 August R 12.002 September R 12.958 October R 13.120 November R 20.251 December R 21.085 **Total** **R 86.832**
Further work by national department	Allocations to municipalities finalised and submitted to National Treasury. Disbursement of transfers is subject to benefiting municipalities signing a standard agreement with DME.

Municipal Capacity-building and Restructuring Grants

Government provides a number of fiscal support measures to enhance municipal management and service delivery capacity. The thrust of these transfers is to implement reforms in municipal development planning, budgeting and performance monitoring systems. An additional set of transfers assists municipalities to implement medium-term institutional and financial restructuring programmes that reduce fiscal stress, expand service delivery and improve the quality of services provided.

A framework to prepare for the consolidation of these grants was gazetted on 31 May 2001. In the course of the financial year, a number of additional funding channels have been identified, and these funds have been incorporated into the Municipal Systems Improvement Programme. Further steps in this process of consolidation are currently under development and will be published shortly.

	Local Government Financial Management Grant (FMG)
Transferring department	National Treasury (Vote 7)
Purpose	To promote and support reforms to municipal financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems in municipalities and implementation of the Municipal Finance Management Act.
Measurable outputs	Outputs include: ● The preparation and implementation of multi-year budgets meeting national norms and standards. ● The adoption of Generally Accepted Municipal Accounting Practices. ● Improvements in internal and external reporting on budgets and financial information.
Conditions	Conditions include: ● The submission of a Council resolution committing to budget reforms, to achieve multi-year budgeting, implementation of GAMAP, and improvement to reporting requirements. ● A Council commitment to employ an appropriately skilled chief financial officer. ● Submission of a checklist identifying critical financial management areas to be addressed. ● Submission of a plan to address shortcomings and to implement reforms.
Allocation criteria	The allocation of funds will be targeted at pilot project municipalities in all categories comprising A, B, and C municipalities able to commit to implementing the financial reforms.
Allocation by province and municipality	Allocation of the grant for 2002/03 between the various recipient municipalities will be gazetted in terms of both Schedules 5 and 6 of the Division of Revenue Bill, 2002: ● Schedule 5 contains direct cash transfers to municipalities ● Schedule 6 contains indirect grants in kind, in the form of international financial management expertise provided by national government and managed by the DBSA
Budget on which transfer is shown	The FMG will be shown as a conditional grant on the National Treasury vote and indicative allocations from Schedule 5 must be reflected in municipal budgets. Schedule 6 allocations should be noted in municipal budgets.
Past performance	Significant progress in 8 pilot municipalities in the last financial year towards implementing three-year budgets and reforming financial management practices. 31 pilot municipalities are now participating in the programme.
Projected life	Programme to continue for initially five years, with a performance review to be conducted by the third year. Thereafter the grant will be phased into the government's broader Capacity Building Strategy but will remain focused towards financial management reform and implementation of the Municipal Finance Management Act.
Reason not incorporated in equitable share	Due to the critical need to develop municipal financial capacity as the foundation upon which other reforms can be built.
Capacity and preparedness of transferring department	Chief Director appointed to deal with capacity for financial management

Municipal Systems Improvement Programme	
Transferring department	Provincial and Local Government (Vote 5)
Purpose	The purpose of the grant is to support municipalities in implementing new systems as provided for in the Municipal Systems Act, Municipal Structures Act and related local government policy and legislation so that they can carry out their mandated functions effectively. These new systems include integrated development planning, performance management, financial management, community participation, effective administration and efficient service delivery mechanisms.
Measurable outputs	• 40 PIMS-Centres established and fully operational December 2002 and providing technical support to municipalities with the establishment and the implementation of the new systems; • Reviewed IDPs with accompanying key performance indicators and targets by end of March 2003 • Reviewed IDPs inclusive of capacity building strategies and institutional alignment strategies for performing defined functions; • Completed PMS frameworks by all the selected municipalities by end of March 2003; • Comprehensive annual performance reports by *all* the selected municipalities; • Number of new systems in place in selected municipalities; and • Number of training / support interventions.
Conditions	Conditions include: • Each selected municipality must submit a capacity development framework indicating: — how funds are addressing local capacity constraints; — how the allocation will be used for improving municipal systems and structures. Category C municipalities should indicate what support they will provide to local municipalities within their areas of jurisdiction; — how funds will used for aligning and improving district and local municipality systems to defined powers and functions; — how all local capacity building initiatives are aligned within this framework. • Contracts to be signed between the relevant municipalities and the DPLG on how the MSIG is to be spent. Guidelines pertaining to the use of the grant will be developed by DPLG with regard to the different areas of support contained within the grant.
Allocation Criteria	• Where PIMS-Centres are or will be established; • Municipalities that require support in the establishment and implementation of new municipal systems and structures as provided for in applicable local government policy and legislation; • Strengthening capacity of district municipalities to provide support to municipalities within their areas of jurisdiction with the establishment and implementation of new systems more effectively; • Continued support to selected municipalities that participated in the PMS pilot programme in the past year; • Municipalities authorised to perform the four national functions.
Allocation by province and municipality	The grant will be reflected in district and local municipalities' budgets. Transfers will be effected in two tranches
Monitoring system	• Monthly expenditure reports to be submitted by each selected municipality to DPLG as provided for in Division of Revenue Act;. • Quarterly report on progress made to be submitted by recipient municipalities, A broad assessment on the implementation of the new systems of developmental local government has been initiated in 5 districts and a report thereon will be available in June 2002.
Budget on which transfer is shown	Th e budget will be transferred directly to selected municipalities, and must be reflected on their budgets..
Past performance	• 30 PIMS-Centres have been established and are fully operational as at October 2001. • Performance Management System pilots have been identified and funds transferred. • Municipalities are reporting to the Department quarterly on progress on the functioning of PIMS-Centres.
Projected life	next 5 years.
Reason not incorporated in equitable share	New grant to assist with the implementation of the Municipal Systems Act, Municipal Structures Act and applicable local government policy and legislation and develop municipal capacity.
Capacity and preparedness of transferring department	The department has appointed a team to assist with the establishment and management of the PIMS-Centres. The Department has prepared contracts, secured donor funding for setting up costs and District municipalities will contribute operational costs. The department's capacity to manage the grant will be strengthened.

Local Government Restructuring Grant	
Transferring department	National Treasury (Vote 7)
Purpose	To modernise large budget municipalities and to make them more effective and efficient service delivery authorities through assisting them to restructure their organisations, functions and fiscal positions. National government will support municipal plans to the extent that they offer significant benefits to national economic stability and development.
Measurable outputs	Outputs of individual grants are specified by municipalities in their restructuring plans, and subject to negotiation with the National Treasury through the preparation of a grant agreement.
Conditions	Funds will be made available on the basis of a municipality's commitment to a locally owned, pre-existing normalization (budgetary restructuring) plan. Conditions will thus be associated with the intended outputs of the municipality's own restructuring plan, rather than funding specific projects. However, municipalities will be required to offer a credible analysis of the reasons behind their decision to restructure and evidence that their plan confronts these challenges. The municipality must approve this plan as a Council Resolution. The primary condition is that the continuing flow of grant funds will depend upon the progressive implementation of the agreed Restructuring Plan, measured through an agreed set of locally appropriate financial indicators and institutional milestones. In this regard, municipalities will be required to take credible steps to collect all revenues due to them. A maximum of R10 million may be made available to assist municipalities in preparing suitable grant applications. Municipalities must apply for such funding, providing evidence of an agreed process and timeframe for the development of an application, and committing to exercising financial discipline.
Allocation criteria	Only municipalities with total annual budgets of R300 million or more are eligible to apply for this grant, as the Local Government Support grant will assist smaller municipalities. The allocation of funding is demand-driven, with applications being subject to intensive assessments of their credibility, as outlined in the existing grant disbursement framework. Applications to be submitted by 1 June 2002 and 1 November 2002.
Allocation by province and municipality	New allocations will be published on the National Treasury website following the signing of grant agreements.
Monitoring system	A management team will be appointed by the Treasury to assist with the technical evaluation of applications and regular reports required in terms of the grant agreements.
Budget on which transfer is shown	The grant will be shown as a conditional grant on the National Treasury vote, and must be reflected on the receiving municipality's budget.
Past performance	Satisfactory performance to date in pilot grant to the City of Johannesburg Metropolitan Council for the implementation of iGoli 2002.
Projected life	Five years, depending on the outcome of a scheduled review of the grant programme in 2003/04.
Reason not incorporated in equitable share	The grant supports implementation of municipal restructuring exercises necessary to avoid financial distress and any risks to national economic policy. It will be incorporated into the equitable share following an assessment that large municipalities are on a sustainable growth trajectory.
Capacity and preparedness of transferring department	The grant framework is available on the Treasury website (www.treasury.gov.za/documents/other/rgg.pdf). The National Treasury is fully prepared for any applications, and a directorate is dedicated for this purpose.

FURTHER EXPLANATORY MEMORANDUM ON LOCAL GOVERNMENT GRANTS

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Three-year allocations

The schedules to the Division of Revenue Bill, 2002, provide three-year allocations to benefiting municipalities for each grant programme. This is due to the forthcoming introduction of three-year budgeting by municipalities. While the development of a three-year budget may not be possible for all municipalities in the next financial year, efforts should be made to ensure that the adoption of these budgets is made possible in the medium term. All municipalities should note that allocations for the outer years (the 2003/04 and 2004/05 financial years) are indicative only.

The information provided here is restricted to transfers from national government and includes:

(a) Information on changes to gazetting formats from the 2001 Division of Revenue Act.

(b) Monthly reporting and other requirements of municipal accounting officers in terms of the Division of Revenue Bill, 2002.

(c) A description of each category of transfer to municipalities

(d) Information on individual grant programmes, including the:
- Purpose and measurable objectives of the grant;
- Conditions of the grant (additional to what is required in the Bill);
- Criteria for allocation between provinces or municipalities;
- Rationale for funding through a conditional grant;
- Monitoring mechanisms;
- Past performance;
- The projected life of the grant; and
- Capacity and preparedness of the transferring department

Transferring national accounting officers responsible for the management of individual grant programmes provide this information. In most instances, these officials have further, more detailed operational procedures for each grant programme available on request.

(e) Frameworks governing allocations for municipal infrastructure and capacity-building respectively.

Provincial allocations

The Bill also requires provincial governments to gazette allocations from their own budgets to municipalities in much the same manner as national government does. *This should be done no later than 14 April 2002.* Read together with the relevant provincial gazette, this appendix and associated schedules allows municipalities to identify the full extent of transfers allocated to them for the current national financial year, and the two subsequent ones.

Further allocations to municipalities in 2002/03

No further allocations to local government will be allowed unless it is in terms of the National Adjustments Budget (tabled in October 2002), if any, as well as any reallocation of funding between municipalities, will be gazetted in November 2002, and should be included in municipal budgets through an adjustments budget.

Changes to gazetting formats from the 2001 Division of Revenue Act

Part 5 of Annexure E details a number of policy changes for individual allocations in 20002/03. In addition to this, there are three technical changes to the manner in which information is presented that complicates comparability of information with that presented in the past. In all instances, historical figures presented in the 2001/02 budget documentation have been adjusted to take these shifts into account.

(1) The equitable share allocations to individual municipalities are now gazetted on the basis of the municipal financial year. This removes the confusion created in 2001/02, when figures for both national and municipal financial years were published. Municipalities should thus use the figures provided in terms of the Division of Revenue Act, 2002, in completing their revenue estimates.

(2) Administrative costs incurred by national or provincial governments in the management of grant programmes have been excluded from total grant allocations. This spending occurs at national and provincial levels, rather than at the local government level, and thus does not constitute a transfer to municipalities. There are five programmes affected by this shift, namely:

(a) The Community Based Public Works Programme, whose allocation declines by R14,2 million to R259 million in 2002/03 and 2003/04. The budget vote of the Department of Public Works remains unaffected.

(b) The Local Economic Development Fund, whose allocation decline by R3,5 million and R3 million to R99 million and R117 million in 2002/03 and 2003/04 respectively. The budget vote of the Department of Provincial and Local Government remains unaffected.

(c) The Building for Sports and Recreation Programme, whose allocation declines by R5,9 million and R6,4 million to R84,1 million and R123 million in 2002/03 and 2003/04 respectively. The budget vote of the Sports and Recreation South Africa remains unaffected.

(d) The Water Services Capital Grant, whose allocation declines by R134 million, R103 million and R68 million over the 2002 MTEF to R884 million, R1012 million and R817 million. The budget vote of the Department of Water Affairs and Forestry remains unaffected.

(e) The Financial Management Grant, whose allocation declines by R0,8 million to R154 million in 2002/03. The budget vote of the National Treasury remains unaffected.

(f) The Consolidated Municipal Infrastructure Programme (CMIP), whose allocations to provinces for programme management and support activities are now listed as a separate grant in the provincial share.

(g) The full amount of the Local Government Support Grant is transferred to the provincial share, as this is a transfer made to provinces, of which a portion is transferred on to municipalities. Provinces will gazette allocations to individual municipalities.

Provinces and departments will be required to report on the use of their allocations in their annual reports. This report should include:

- Actual transfers to individual municipalities
- Actual spending by provinces or departments on administrative and other programme overheads
- The cost of professional consulting services procured for the programme; and
- The extent of municipal capacity building achieved through the allocation.

(3) Grant programmes that provide both cash transfers and grants-in-kind to municipalities are more accurately presented, in schedules 5 and 6 of the Division of Revenue Bill respectively. In summary, a grant programme that both transfers cash and provides services to municipalities is divided between these schedules, with the respective amounts of each transfer separately identified to permit accurate revenue estimation by municipalities. For example, The Financial Management grant provides R111 million in cash to municipalities in 2002/03 and R44 million in services. These two windows add up to the full allocation of R155 million for the programme.

Reporting and other requirements of municipal accounting officers in terms of the Division of Revenue Bill, 2002.

Implications for municipal budgets

Municipalities are required to budget for all direct transfers allocated to them. These transfers should be scored on both the revenue and expenditure portions of municipal budgets. Indirect transfers should be treated as "grants-in-kind". Information on the treatment of each grant programme in this regard is included in the grant frameworks in the tables below. The Auditor-General will strictly enforce this requirement, and municipalities are thus requested to utilise the information provided in terms of the Division of Revenue Bill, 2002, to complete their budgets.

It should be noted that the equitable share allocations to individual municipalities are now gazetted on the basis of the municipal financial year. This removes the confusion created in 2001/02, when figures for both national and municipal financial years were published. Municipalities should thus use the figures provided in terms of the Division of Revenue Act, 2002, in completing their revenue estimates.

Reporting requirements of municipal accounting officers

Municipal accounting officers are required by the Bill to report on the following matters:

(a) The official bank account for the municipality that must be used for all transfers. This information must be supplied to the national accounting officer for local government

(b) Monthly reports on the receipt and expenditure of funds from each grant programme. These reports, which may include other information specified by individual grant programmes, must be forwarded to the accounting officer of the department responsible for making each transfer, no later than the 5th working of day of each subsequent month.

Failure to meet the requirements of the Act may result in funds being withheld.

Types of transfers to municipalities

There are three broad types of transfers provided for in the Division of Revenue Bill, 2002. These are the Equitable Share for Local Government and related transfers (including the Local Government Transition Grant and the now-incorporated R293 Personnel Grant), conditional transfers for municipal infrastructure, and conditional transfers for recurrent municipal expenditure (encompassing both transfers for capacity building programmes and for municipal restructuring). The purpose, conditions, measurable outputs, specific exemptions granted to programmes and associated matters are detailed for each transfer programme in the tables below. Allocations to each benefiting municipality are listed in the associated schedule.

The Local Government Equitable Share

The allocations to municipalities from the Equitable Share are made for the financial year of municipalities, which runs from 1 July to 30 June, as opposed to the national government financial year, which runs from 1 April to 31 March. Municipalities should budget for these allocations on the basis of their financial year (1 July to 30 June). However, it should therefore be noted that the total allocation in the schedules does not match the amount appropriated for the equitable share on the vote of the Department of Provincial and Local Government.

The R293 Personnel Grant has been incorporated into the Equitable Share for budgetary purposes, although the allocations to benefiting municipalities will continue to be honoured in terms of existing agreements.

Infrastructure Transfers to Municipalities

Section 11 of the Act requires that infrastructure transfers to municipalities are made in terms of a framework. This framework is accordingly published, and applied to the Consolidated Municipal Infrastructure Programme (CMIP), the Implementation of Water Services Project (Capital) Programme, the Local Economic Development Fund, the Building for Sports and Recreation Programme and the Community Based Public Works Programme.

Other programmes not included in the framework but gazetted here are the Urban Transport Fund, and National Electrification Programme.

Recurrent Transfers to Municipalities

Section 13 of the Act requires that capacity-building transfers to municipalities are made in terms of a framework. This framework is accordingly published.

Allocations to municipalities in terms of section 7 of the Division of Revenue Act, 2001

1. The allocations to municipalities as required by sections 5 and 7 of the Act are attached in Schedules 2, 5 and 6 of the Division of Revenue Bill, 2002. Allocations by municipality for each programme are available and will be gazetted on approval of the Bill

2. The frameworks for individual grant programmes are set out below.

INTERIM FRAMEWORK FOR MUNICIPAL INFRASTRUCTURE ALLOCATIONS

Interim Framework for Municipal Infrastructure Allocations in terms of section 11 of the Division of Revenue Bill, 2002

Definitions

"existing commitment" means a formal written commitment between a national transferring officer and a municipality for the construction or funding of a specific infrastructure project, and is already approved in terms of an existing grant framework

Purpose of these regulations

1. The purpose of these regulations is to:
   (a) align grant programmes for their consolidation in the 2003/04 financial year;
   (b) ensure that allocations are made on a three year basis
   (c) ensure the criteria for the allocation of funding is transparent
   (d) protect existing commitments to municipalities
   (e) ensure that poor households benefit from infrastructure allocations
   (f) clarify the objectives of municipal infrastructure investment

2. No national accounting officer may design a grant framework or make an allocation to a municipality for infrastructure investment that does not comply with the provisions of these regulations.

Provisions governing all allocations for municipal infrastructure

3. National accounting officers must submit to the National Treasury by 15 May 2002 a list of existing commitments to municipalities in a prescribed format that identifies:
   (a) the municipality that will own and maintain the asset on its asset register; and
   (b) the year in which expenditure on such a commitment will be incurred, provided that such expenditure will occur before the end of the 2003/04 financial year.

4. No new commitments may be made to a municipality by any accounting officer unless the concurrence of the National Treasury has been obtained.

5. No funds may be transferred to a municipality unless that municipality has certified that the funds will be used:
   (a) to provide a basic level of service to poor households, in a manner that ensures that no household will receive a total benefit greater than R7000 directly from these funds;
   (b) install or rehabilitate municipal infrastructure whose full value will be reflected in the asset register of that municipality in accordance with generally accepted municipal accounting practices.

Measurable outputs

6. A transferring officer must submit to the National Treasury by 15 May 2002 the number of households to be served by each existing commitment in this financial year and for the 2002/03 and 2003/04 financial years.

Donor agreements

7. Transferring officers must submit information on all agreements with donor agencies that are likely to be affected by the consolidation of municipal infrastructure allocations to the National Treasury by 15 May 2002 in a format that:
   (a) identifies each relevant donor agency and agreement
   (b) identifies the amount of funding involved, the length of the agreement and its allocation between municipal or provincial jurisdictions;

(*c*) identifies the total amount of public resources that are tied to this agreement from the programme concerned;
(*d*) provides details of the conditions of the agreement;
(*e*) Provides details of how and when such funds are likely to be affected by the consolidation of infrastructure allocations; and
(*f*) Assesses the possibilities for the renegotiation of such an agreement

Alterations to municipal allocations

8. No allocation to a municipality for the 2001/02 financial year may be altered without the written approval of the National Treasury, and unless such an alteration has been gazetted.

Application of these regulations

9. These regulations apply to the Consolidated Municipal Infrastructure Programme (CMIP), the Implementation of Water Services Project (Capital) Programme, the Local Economic Development Fund, the Community Based Public Works Programme, and the Building for Sports and Recreation Programme.

INTERIM FRAMEWORK FOR MUNICIPAL CAPACITY BUILDING ALLOCATIONS

Interim Framework for Municipal Capacity Building Allocations in terms of Section 13 of the Division of Revenue Bill, 2002

Definitions

1. In this schedule a word or phrase to which a meaning has been assigned in the Division of Revenue Act, 2002, has that meaning, unless otherwise indicated —

   'Capacity building' refers to programmes or projects that strengthen the administrative, financial, institutional, human, infrastructure and community capacity of a municipality in order for a municipality to be able to fulfil its constitutional duties as set out in section 152 of the Constitution.

Purpose of these interim regulations

2. The purpose of these regulations is to:
   (a) Prepare for the alignment of capacity building programmes during the 2003/04 financial year for consolidation into a single grant by 2005/06 financial year;
   (b) Identify and protect existing commitments to municipalities;
   (c) Ensure that allocations are made on a three-year basis;
   (d) Ensure the criteria for the allocations of funding is transparent;
   (e) Support municipalities in their performance of their powers and exercising of their functions through the development of the following set of skills:
      (i) Budget and Financial Management Skills;
      (ii) Strategic Management and Planning Skills;
      (iii) Technical Service Delivery Skills.

3. National and provincial accounting officer may not make an allocation to a municipality that does not comply wit the provisions of this framework.

Provision governing all allocations for municipal capacity building

4. National and provincial accounting officers must submit to the national accounting officer responsible for local government by 31 May 2002 a list of existing commitments to municipalities for capacity building in a format that identifies:
   (a) The municipality that will benefit from such an allocation, or transfer, whether in cash or in kind;
   (b) The purpose of such an allocation;
   (c) The intended outputs and outcomes of such a grant;
   (d) The criteria used for such an allocation;
   (e) Monitoring mechanisms in place for such and allocation; and
   (f) The year in which expenditure on such an allocation will be incurred.

5. No new grants will be introduced over the 2002 MTEF period.

6. Existing commitments of departments will be honoured over the 2002 MTEF period.

7. The national and provincial accounting officers must adhere to the following programme of phasing in capacity building grants into a single capacity building grant by 2005/06:
   (a) 2002/03 — Phase one, alignment of capacity building programmes;
   (b) 2003/04 — Phase two, Department of Provincial and Local Government capacity building grants;
   (c) 2004/05 — Phase three, other line departments' capacity building grants;
   (d) 2005/06 — Phase four (final phase) — incorporating all other capacity building grants.

8. Municipalities must submit capacity building plans to the national accounting officer responsible for local government by 1 October 2002. These plans should indicate:
   (a) the type of capacity building that is required;
   (b) the intended outputs and outcomes of such capacity building;
   (c) the year in which the funding is required.

9. Each grant programme manager must commission an independent assessment of the relevant grants by 30 June 2002 that provides both a management audit and an output audit of the expenditure over the past three years, or the life of the grant, whichever is the shorter.

10. The assessment should cover the following:
    (a) Funding provided per financial year up to the end of the 2001/02 financial year;
    (b) The purpose of the funding; and
    (c) The outputs and outcomes of the programmes.

Institutional Mechanisms to ensure the Implementation of the Framework

11. The National Steering Committee for Capacity Building, chaired by the Department of Provincial and Local Government, will be tasked with the responsibility of ensuring the finalisation and ongoing implementation of the framework for a single capacity building grant by 2005/06. The Steering Committee will consist of the departments of Water Affairs and Forestry, Minerals and Energy Affairs, Public Works, Sports and Recreation, Housing, National Treasury and SALGA

Measurable outcomes

12. A national set of indicators will be developed that will assist the Department of Provincial and Local Government in monitoring the impact of capacity building spending and will be part of the single reporting and monitoring framework for the grant. These indictors will be developed according to the following timeframe:
    (a) The accounting officer responsible for local government must submit a request on 15 March 2002 to all accounting officers for draft indicators;
    (b) All accounting officers must submit draft indicators by 30 April 2002 to the accounting officer responsible for local government;
    (c) The National Steering Committee must approve these indicators by 30 June 2002.

13. As from 1 April 2003, all accounting officers must report on these indictors on a quarterly basis to the accounting officer responsible for local government.

Donor agreements

14. Transferring national officers must submit to the national accounting officer responsible for local government by the 31 May 2002 details of donor funds which have been secured and which are aimed at capacity building, in a format that—
    (a) Identifies each relevant donor agency;
    (b) Identifies the amount of funding involved, the length of the agreement and its allocation between municipal or provincial jurisdictions;
    (c) Identifies the total amount of public resources that are tied to this agreement from the programme concerned;
    (d) Provides details of the purpose and conditions of the agreement;
    (e) Provides details of the proposed outputs and outcomes of the funding; and
    (f) Assesses the possibilities for the renegotiation of such an agreement.

Application of this framework

15. This framework applies to-
    (a) the Local Government Support Grant, Municipal Systems Improvement Programme Grant, the Financial Management Grant, and the Local Government Transition Fund Grant.

(b) the capacity building components of the Consolidated Municipal Infrastructure Programme, the Community Water and Sanitation Services Programme, the Community Based Public Works Programme and the Housing Programme.

(c) any transfer of funds, resources or grants-in-kind for capacity building from the budget vote of a national or provincial department that is not listed in this Act.