Submission on the 2020 Division of Revenue Bill

For an Equitable Sharing of National Revenue

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National Council of Provinces
Select Committee on Appropriations

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List of acronyms

AIDS	Acquired Immunodeficiency Syndrome
CoGTA	Department of Cooperative Governance and Traditional Affairs
DoRA	Division of Revenue Act
ECD	Early Childhood Development
EIG	Education Infrastructure Grant
ENE	Estimates for National Expenditure
GDP	Gross Domestic Product
HCI	Human Capital Index
HFRG	Health Facility Revitalisation Grant
HIV	Human Immunodeficiency Virus
HSG	Human Settlement Grant
ICDG	Integrated City Development Grant
IGFR	Intergovernmental Fiscal Review
IMF	International Monetary Fund
INEG	Integrated National Electrification Grant
LG	Local Government
MIG	Municipal Infrastructure Grant
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Economic Framework
NEDLAC	National Economic Development and Labour Council
NHI	National Health Insurance
PES	Provincial Equitable Share
PPP	Private Public Partnerships
PRASA	Passenger Rail Agency of South Africa
PSET	Post School Education and Training
PTNG	Public Transport Network Grant
SARB	South African Reserve Bank
SARS	South African Revenue Service
SIBG	School Infrastructure Backlogs Grant
SOE	State-Owned Enterprise
SONA	State of the Nation Address
Stats SA	Statistics South Africa
TB	Tuberculosis
TVET	Technical and Vocational Education and Training
UIF	Unemployment Insurance Fund
USDG	Urban Settlement Development Grant
WSIG	Water Services Infrastructure Grant

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1. Background and overview

This document is prepared in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act, 2009 (Act No. 9 of 2009), as amended, which requires parliamentary committees to consider any recommendations of the Financial and Fiscal Commission (FFC) (hereafter the Commission) when considering Money Bills. It is also made in terms of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997), as amended, which requires the Commission to respond to any requests for recommendations by any organ of state on any financial and fiscal matter.

Budget 2020 was tabled under already bleak economic conditions for South Africa, on 26 February 2020. The Commission responded to the Division of Revenue Bill and the associated appropriations to the Standing Committee on Appropriations on 4 March 2020. Since then, due to the COVID-19 pandemic, global and economic conditions have deteriorated substantially and are impacting on South African government expenditure imperatives (reprioritisation) and the tax and financing environment. It is therefore widely anticipated that an early Adjustments Budget will have to be tabled to ensure relevance of the South African budget to social and economic conditions. This response points to some of the implications of the COVID-19 pandemic but responds to the division of revenue and budget as tabled in February.

This submission recaps the Commission's response to government's proposed fiscal framework and revenue proposals. The fiscal framework sets the revenue, expenditure and debt parameters which determine fiscal space available for funding the three spheres of government and the different functions or services which they provide. After this brief summary, the submission discusses the division of revenue between the spheres and the attendant shifts in allocations to specific functional areas and departments and shifts in the types of inputs (or items) which government will use to produce services.

Economic and fiscal conditions prevailing at the time of the budget in February led to cuts in certain institutional budget baseline allocations (in particular for large provincial local infrastructure conditional grants and for public service salaries), a slowing of real growth in allocations to education and health services and maintained minimal or negative growth in certain other core parts of government delivery (for example, Agriculture, Home Affairs and StatsSA) and in important priorities (Environment, Technology and Innovation).

The reduction in planned infrastructure spending will impact on the basic household or network services available to citizens in future. Reduced wage budgets have necessitated negotiations with public sector unions and are likely to see a reduction in staff numbers in health, education, and protection services. These adjustments and the overall slow growth of education and health budgets (not compensating fully for service delivery demands and cost increases) will lead to some reduction in the gains in access and quality achieved in the last decade. Continued pressure on core public services (Agriculture, Home Affairs, Statistics South Africa) will be because of the reductions in real allocations after taking account of inflation, which will also be the case for other expenditures that are important for the future such as technology and innovation and environmental programmes.

The economic and fiscal impact of COVID-19 will further worsen these already negative fiscal trends caused by low growth and a worsening revenue and debt situation as contained in Budget 2020. More funding will have to be allocated to health to ensure a response commensurate to the risk posed and to safeguard essential services such as energy, water, sanitation and food supply, where local government plays a substantial role. Substantial stimulus funding will also have to be made available to support households and business. Further, Government revenue will slump because of the overall reduction in economic activity. Further increases to the budget deficit and debt to GDP ratios will have to be tolerated. More specifically, their implications for future spending plans, which include putting aside a large proportion of expenditure for debt repayment.

While South Africa aspires to spend on securing a more prosperous future through investment in its people and infrastructure it will now be forced to spend, and borrow more, merely to protect its human resources (through health, wage income and livelihood replacement) and to protect its economic capital (shield businesses from bankruptcy and failure). The question for an Adjustments Budget is not only on how these necessary steps will be effected but also importantly how the structural economic and social changes brought about can be sequenced and interrelated to ensure an optimal recovery.

In the immediate future, the situation is a bleak one where the South African state (and hence South African citizens) will have to increase debt to survive the crisis. This intrinsically implies a commitment to large debt repayments and slower increases in future consumption and investment, thus slower increases in improving the living standards of South Africans, which for many citizens remain dismally low.

An important challenge for a COVID-19 Special Appropriation or Adjustment Budget is therefore not only to balance the books and respond to the pandemic, but also to identify the potential sources of a more rapid recovery post the Corona-virus crisis. It is probable that ensuring a more rapid recovery will have to include:

(1) South Africa’s top income earners carrying a bigger burden in respect of the adjustment, since this is the only place where the possibility of consumption reduction exists – and because the elite have the most too loose from implosion and the most to protect in terms of a rapid recovery.

(2) Restructuring the future social bargain (pact) to extend solidarity and provide more “buy-in” into the South African settlement. Such restructuring and greater solidarity will over time reduce levels of corruption, crime, and resistance to change, which block innovation and efficiency

(3) A focus not only on the risks of global shifts such as climate change, natural disasters, increased likelihood of future pandemics and population movements but also on (a) opportunities which flow from technological change and innovation which provide for new South African assets

and income flows (b) options for negotiating partnerships and pacts for a more sustainable and just economic path.

(4) A reassessment of the South African economy, future scenarios and more specifically of government - in terms of its structure and service delivery. This has direct implications in terms of the composition of government expenditure and for revenue collection but also reflects a need for more responsiveness and flexibility.

2. Shifting context: COVID-19, growth and debt

For some time now, the progressive weakening of the South African economy as reflected in decelerating economic growth, declining per capita incomes and rising unemployment has been threatening the social gains South Africa made over the last 25 years.

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Slow growth impacts government revenues leading to rising deficits and debt which is constraining government's ability to invest in society and the economy while paradoxically further investments are required if growth and inequality are to be redressed.

The current COVID-19 pandemic and the impact of the rising "proximities" of people (international densities) because of the development of transport technology and economic integration, have a further negative impact on South Africa's ability to invest in its people and infrastructure.

The pandemic in the first place requires urgent expenditure on:

- A strong command centre and networks of information, analysis and decision-making
- Dealing with health challenges (staff, equipment and facilities to test and care) and essential services (energy, water, sanitation and food. Areas where local government plays a critical role)
- Protecting households against wage and livelihood loss
- Protecting businesses against slumping markets
- Bolstering the financial system to keep credit flowing.

In addition, the pandemic will impact on growth. In South Africa, disruptions caused by containment and mitigation measures and lower external demand are expected to compound existing structural constraints with growth expected to be significantly below earlier projections. This is due to a significant extent also to slower growth in our major trading partners, with IMF estimates indicating that a one percentage point drop in Chinese growth would reduce South African growth by 0.2 percentage points driven, partly, by lower demand for South African mineral ores.

Recent projections show a dramatic slump in economic growth in 2020, with Table 1 reflecting the International Monetary Fund projections in April contrasted to those of the National Treasury as at the time of the budget.

Table 1 – Budget (February 2020) and International Monetary Fund (April 2020) growth projections

	2016	2017	2018	2019	2020	2021	2022
Percentage change		Actual		Estimate		Forecast	
Nominal GDP growth Budget 2020	0,4%	1,4%	0,8%	0,3%	0,9%	1,3%	1,6%
Nominal GDP growth IMF WEO April 2020	0,4%	1,4%	0,8%	0,2%	-5,8%	4,0%	

Source: National Treasury, Budget Review 2020 and IMF, World Economic Outlook (April 2020)

The IMF projections are also echoed in projections from the private sector. Table 2 shows that the private sector sees growth estimated at between -4.5% to -7.7% leading to a 2020/21 budget deficit that could reach 12 per cent of GDP and pushing the debt-to-GDP ratio as high as 82 per cent by 2021/22.

Table 2 - Selected private sector growth, deficit and debt-to-GDP forecasts for South Africa

	GDP growth 2020	Budget deficit 2020/21	Debt-to-GDP 2021/22
RMB	-4.5	9.3	79.3
Intellidex	-5.6	10.6	73.1
HSBC	-6.7	12.0	82.0
JP Morgan	-7.7	12.0	81.0

Source: M Sachs/COVID 19 Economy Group. 2020. Macro-fiscal considerations in response to the COVID-19 crisis

While conditions in February 2020 took a measured approach towards containing the deficit and starting to halt the debt trajectory, interventions against COVID-19 and to support society and economy will now have to see a significant widening of the deficit and a much higher and delayed turning point in the debt-to-GDP ratio. Deficits could be pushed to levels normally associated with large-scale warfare.

In addition to increased spending there will also have to be reprioritisation towards health, essential services and supporting households and businesses and a realistic recovery path. In developing the recovery path, it will be important to factor in that:

- The adjustment to the pandemic cannot be carried and financed by South Africans at the bottom of the income distribution.
- The South African social pact (Constitution and resulting property rights and tax system) needs restructuring towards greater solidarity if the country is to survive the pandemic.
- While adjustments focused on the risks are necessary the country must also focus on the major opportunities related to technological shifts in the world and South African strengths to build growth paths and coalitions around these

- There is a need to reassess the South African economy, future scenarios and specifically government, its structure and service delivery. This will have implications for the composition of expenditure and revenue.

- The need for reorganisation and capacitation of the state at all three levels and for a more responsive and adjustable state.

The required planned structural change has evaded the South African state and economy and generally leads to calls for a more capable, efficient and development-orientated state. There is, however, a need to look at the reason for slow change, to find the factors behind what is often called "policy uncertainty" and a lack of ability "to implement". This uncertainty and implementation failure relates to how the benefits of change are expected to be distributed and those expecting to lose, blocking change. These conflicts of interests, related strongly to the inequalities in our society and lack of common interest or cohesion, need to be addressed and stronger coalitions built for positive change and growth.

3. Division of Revenue

3.1 Background to division of revenue and the mandate of the FFC

As in all multi-sphere government systems, it is not possible, or even advisable, to attempt to perfectly balance spending responsibilities and revenue sources. In South Africa, spending responsibilities are distributed between the three spheres (local, provincial and national) evenly, but revenue sources are concentrated in the LGs (property rates and service charges) and the national government (income and transaction taxes). Hence a system of transfers from national level to provinces and LG is necessary to allow all spheres to deliver on their mandates (allocated functions). In addition to transferring between spheres (the vertical split of available funding), national transfers also redistribute between provinces and LG as there are significant differences in expenditure needs and funding availability (the vertical split).

The legislative vehicle for making these transfers is the annual Division of Revenue Act (DoRA) which sets out unconditional transfers (equitable shares) and conditional grants to provinces and local government. The determination of unconditional transfers or the horizontal distribution is based on formulas that consider relative expenditure needs for the different services provided in the different levels of government. These formulas are driven mostly by population numbers adjusted for factors that determine relative need such as population composition, poverty and level of development. Given constant changes in population and shifts in functions and needs, the division of revenue and intergovernmental system must adjust dynamically over time to optimise service delivery.

South Africa's Constitution established the Commission to advise on this annual division of revenue. In Section 214, the Constitution also indicates the factors that must be considered in finalising the division of revenue. In summary, Section 214 of the Constitution says that the Division of Revenue must take into the national interest and the functions or spending needs of the different spheres of government and their capacity to provide these services. In addition, the need for stability and flexibility must be considered.

Ten months before the tabling of the Division of Revenue Bill every year, the Commission makes a submission to Parliament containing analysis and recommendations about the next DoRA. In May 2019, the Commission submitted a set of recommendations related to the viability and sustainability of local government. The 2019 submission identified a variety of pressures in local government and made recommendations related to:

- Review of the LG fiscal framework and especially the exploration of supplementary revenue sources (such as development charges, tourism levies and land value capture mechanisms) to be added to the list of allowable taxes;
- Greater coordination and collaboration at a national level about municipal government capacity building and prioritisation of technical support for new systems, innovative business process redesign and change management; and
- Improving LG infrastructure management and efficiency.

The continued slow growth of revenues and the need to cut expenditure, and as a result the efficiency of government, confirm the relevance of these recommendations. In its response, government agreed with the thrust of the recommendations and pointed out that in several areas, work and implementation are already ongoing and that in other areas there will have to be careful consideration of options.

3.2 Technical changes to clauses of the Bill

The structure and most clauses of the 2020 Division of Revenue Bill are not substantially different from that of previous years.

Some clauses have been amended to improve flexibility in implementation, for example clauses providing exemption from some determinations around the Build Environment Performance Plan, providing for the shifting of funds between components of a grant and for amending payment schedules.

Some amendments also provide for the strengthening of accountability. Some examples are that timelines are provided to provinces to responses to local government, a need for provinces to report on remedial action taken when intending to withhold funds and on the need for provinces to consult with local government on transfer amounts and payment schedules between.

As is the standard practice, data for the formula are updated as it becomes available.

The Commission agrees with these technical changes for flexibility and accountability and with the updating of the variables in the formula.

3.3 Expenditure Allocations

3.3.1 Expenditure by function

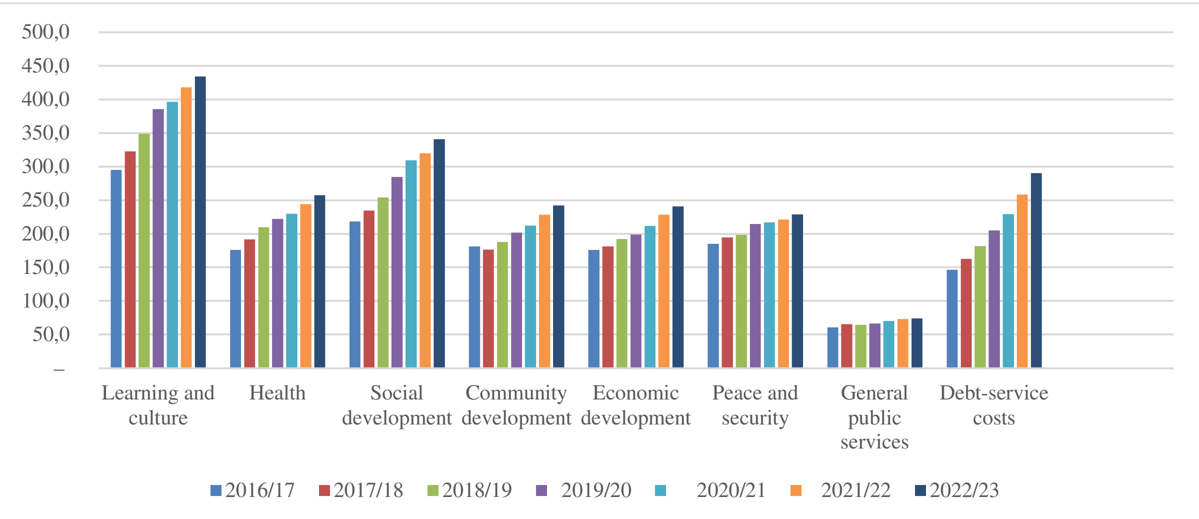
Over the next three years, R5.3 trillion is allocated in respect of various spending functions: R1.72 trillion in 2020/21, R1.78 trillion in 2021/22 and R1.85 trillion in 2022/23. This is a reduction of R133 billion against the 2019 Budget baseline, R19.8 billion in 2020/21, R50.1 billion for 2021/22 and R63.9 billion in 2022/23.

Functional allocations grew by an annual average of 3.3 per cent per annum over the period 2016/17 to 2019/20 but the growth rate declines to 0.4 per cent per annum over the 2020 MTEF. Overall, service delivery will therefore be under significant pressure. While there is compensation for inflation, there is no funding provided for demand growth, including population increases and cost increases above CPI. In the past, remuneration has increased significantly above inflation, cutting into the purchasing power of departmental allocations. Service delivery levels will therefore hinge critically on reaching agreement with employees for overall salary adjustments below those of recent years.

Several functional and programme areas grow more slowly than the broadly inflation-matching average, and indeed below, the average rate of inflation, thus shrinking in real terms. Debt service costs are rising significantly faster than inflation at a real annual average of 7.2 per cent per annum. Peace and Security budgets are set to decline in real terms by 2.2 per cent per year on average, general public services by 0.8 per cent per annum, and learning and culture by 0.5 per cent per annum. The level of agreement on salary and wage moderation that have already been included in the budget will therefore be fundamental to the credibility of these functional estimates; if the current agreement of CPI plus 1 per cent remains, the real reductions will be even more significant.

Figure 1**Error! Reference source not found.** illustrates the allocations to the various functional categories, including debt service costs. As is evident, the amounts allocated in respect of debt service costs now exceed allocations to critical areas of spending such as community development and economic development, and, towards the end of the MTEF period this item is even projected to eclipse allocations to Health.

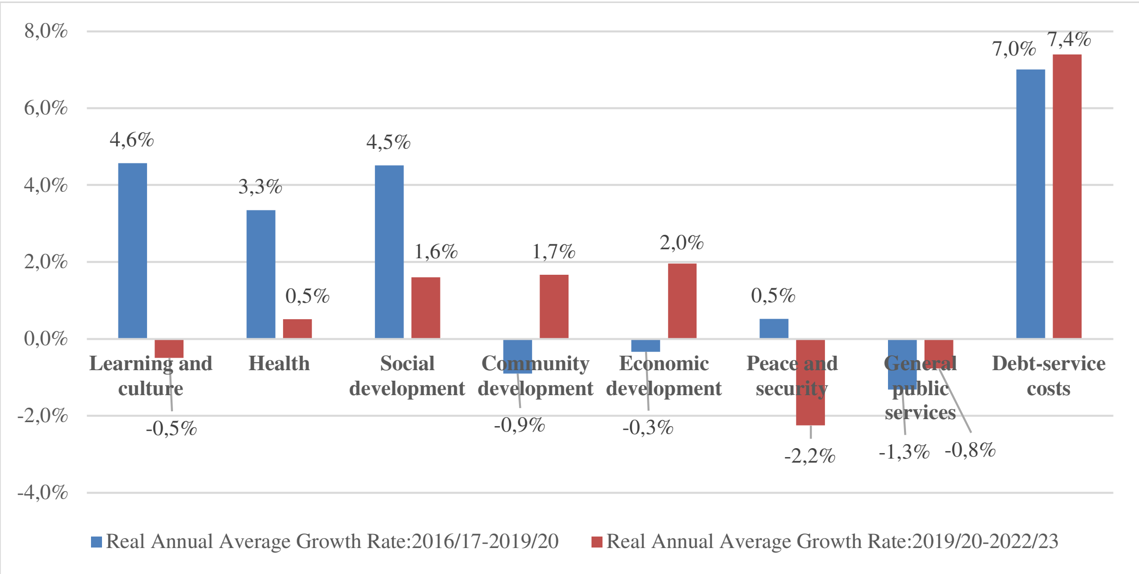
Figure 1 – Allocations to main functional categories, 2016/17-2022/23 (R'billion)



Source: Own calculations from National Treasury

Between 2016/17 and 2019/20, growth in spending by allocation was driven predominantly by learning and culture (mainly post school education and training (PSET)), social development (mainly social security funds) and health which grew significantly above inflation (4.6 per cent, 4.5 per cent and 3.3 per cent respectively). Over the next three years, the emphasis shifts from this social focus. There is relatively stronger real annual average growth projected for the economic development function (2.0 per cent) and community development (1.7 per cent). Social development continues to see real growth, driven by social protection, consisting mostly of social grant payments (1.6 per cent). **Error! Reference source not found.**Figure 2 illustrates the real annual average growth per function over the recent past (2016/17 to 2019/20) relative to what is being projected over the next three years (2019/20 to 2022/23).

Figure 2 – Real average annual growth in functional categories, 2016/17-2019/20 and 2020/21 to 2022/23



Source: The National Treasury, MTBPS 2017, 2018, 2019 and Budget Review 2020.

While real growth in allocations to health and social security funds will slow significantly over the next three years, numerous items are set to experience real reductions in allocations. These include:

- Learning and culture: Noticeable is the projected deterioration in growth to PSET – after having grown significantly by a real annual average growth rate of 12.6 per cent over the period 2016/17 to 2019/20, growth in allocations to this function will slow significantly to a real annual average of 0.1 per cent per annum over the next three years.
- Specific elements within the economic development function are prioritised, namely economic regulation and infrastructure, job creation and labour affairs, and industrialisation and exports. These will show above average growth over the MTEF period. In contrast, allocations to agriculture and rural development and science and technology are projected to show real declines over the 2020 MTEF period. In the case of agriculture and rural development, the reduction is projected at real annual average

of 3.2 per cent per annum while funding in respect of innovation will be cut more marginally by an annual average of 0.3 per cent per annum. While R1.2 billion is being set aside for an Innovation Fund, it should be noted that resources to fund the general functional spending category of innovation, science and technology have been under consistent pressure; over the period 2016/17 to 2019/20, this item recorded a significant reduction of an average of 6.1 per cent per annum.

- From a functional perspective, the peace and security and to a lesser degree, the general public services function seem to bear the brunt of deprioritisation effected over the next three years. In terms of the peace and security function, allocations to defence and state security and home affairs (which has the smallest allocation within this category), are under intense pressure with real declines in allocations noted over most of the years under review. This trend is expected to continue over the next three years with real annual average growth projected to decline by 2.8 per cent per annum. The largest component of the general public service category – public administration and fiscal affairs – has recorded real year-on-year declines between 2016/17 and 2019/20. While showing marginal (under 2 per cent) recovery in 2020/21 and 2021/22, this item is projected to decline significantly (by 4.4 per cent) at the end of the MTEF period.

The Commission notes that, in containing expenditure, pressure is placed on some of the core and foundational functions of government (e.g., Home Affairs) and potential catalysts of modern economic growth (e.g., allocations to PSET, agriculture and rural development, and innovation spending). Whilst these sectors could yield potential gains in terms of promoting growth, opportunities for this in the coming period will be curtailed unless departments can dramatically increase spending efficiencies.

Spending containment is also threatening to reverse gains achieved in previous periods. For example, since the announcement of fee-free education, significant resources have been shifted from various items towards PSET. The need for efficient management and spending notwithstanding, it is of concern that growth in PSET is projected to slow dramatically from a strong real annual average growth rate 12.6 per cent per annum over the period 2016/17 to 2019/20 to 1.5 per cent in 2020/21 before declining by 0.1 per cent and 1.2 per cent in 2021/22 and 2022/23 respectively. Together with universities and technical and vocational education and training (TVET) colleges, spending by science and technology all contribute towards levels of innovation in South Africa. The current MTEF projections signal that these avenues for innovation will be constrained. The effects that this slowdown in growth will have on government's ability to expand fee free education and address lack of TVET student accommodation are cause for concern. According to Budget 2020, R2.3 billion will be cut from the TVET college infrastructure and efficiency grant which focuses on maintenance funding. This highlights the challenge of maintaining infrastructure investments in areas of significant demand.

In addition to protecting potential growth enablers, government also needs to ensure continued focus on building a more capable state and improving service delivery outcomes. In this regard, the apparent pressure on allocations to Home Affairs, which is responsible for maintaining the national population register and regulating the movement of persons through ports of entry, requires more investigation. The identification system managed by Home Affairs underlies the entire banking and therefore commerce system, and so is crucial to the economy.

3.3.2 Expenditure by Vote

The total appropriation by Vote will see a significant reduction in real annual average growth – from a strong positive 4.6 per cent per annum over the period 2016/17 to 2019/20, to a projected decline of 1.3 per cent per annum over the next three years.

Over the period 2016/17 to 2019/20, the main drivers of real growth were the Departments of Small Business Development (18.4 per cent), Higher Education and Training (16.6 per cent) and Communications and Digital Technologies (13 per cent). Over the same period significant real annual average reductions were experienced in the Mineral Resources and Energy Vote (-4.8 per cent), Trade, Industry and Competition (-4.3 per cent) and Statistics South Africa (-3.7 per cent). Over the 2020 MTEF period, Cooperative Governance and Traditional Affairs, Social Development and the Small Business votes are projected to show relatively stronger real growth of between 2 and 3.5 per cent. In terms of reductions, Communications and Digital Technologies is set to experience unstable allocations which first drop by 30 per cent in 2021 before increasing by 10 per cent in 2022 and finally declining again in 2023 by an estimated 35.5 per cent. Trade, Industry and Competition and Human Settlement are also votes that are projected to see real annual average declines of over 5 per cent per annum over the next three years.

Despite allocations being more constrained, the seven years reviewed show that there are certain departments whose budgets are relatively protected and have experienced real growth over the seven years while others have been under relatively more pressure in that they experience real annual average reductions over the seven years. (**Table 3** provides more detail.)

Table 3 – Prioritisation of votes

Selection of Relatively Pressurized Votes			Selection of Relatively Protected Votes		
Vote	**Real Annual Average Growth Rate - 2016/17--2019/20**	**Real Annual Average Growth Rate - 2019/20-2022/23**	**Vote**	**Real Annual Average Growth Rate - 2016/17-2019/20**	**Real Annual Average Growth Rate - 2019/20-2022/23**
Statistics South Africa	-3.7%	-0.1%	CoGTA	3.4%	3.5%
Agriculture, Land Reform and Rural Development	-0.6%	-2.0%	Social Development	3.2%	2.4%
Human Settlements	-1.0%	-5.4%	Small Business Development	18.4%	2.1%
Trade, Industry and Competition	-4.3%	-5.9%	National School of Government	23.3%	3.2%

Government's efforts to protect allocations to the local government sphere as reflected in positive, above inflation growth to CoGTA is noteworthy, given that the delivery of basic services to indigent households takes place at municipal level. Likewise, maintaining the safety net of the poor through higher than inflation allocations to Social Development translate into social grant funding to the poorest of the poor. That these measures take place against strong real growth in allocations to the Small Business Development vote, highlights the attempts by government to promote future growth and job creation.

As noted under the previous section, cuts to the Agriculture, Land Reform and Rural Development vote potentially disable a lever for growth and implies that resources to assist the poor in rural areas are under pressure. Pressure on the Human Settlements vote are largely the result of reductions in the conditional grant allocations to this department. The strong real cuts to the Trade, Industry and Competition vote appear to be surprising given the need to kick-start growth and job creation in the country. Cuts could result from concerns regarding impact and relative cost, also factoring in analyses from DPME and spending review evaluations. Of concern is the seeming erosion of the allocations to Statistics South Africa given their role as producer of official statistics that form the basis for decision-making across government and business. Given the fourth industrial revolution and the growing importance of data as tools and assets, StatsSA should play a leading role in positioning government in this context.

3.3.3 Expenditure by economic classification

Current payments dominate consolidated government expenditure. Between 2016/17 and 2019/20 current payments (salaries and wages, goods and services, and interest) grew by an average of just over 3 per cent per year in real terms. This contrasted with payments for capital assets that declined by 8.2 per cent per year on average in real terms. The biggest component of current expenditure, compensation of employees, grew by 2.6 per cent per year in real terms with goods and services growing by just under 2 per cent per year. The rapid growth in debt service costs (at an annual average of 7 per cent) is impacting on funds available. While capital expenditure under this heading does not encompass all government capital expenditure (the bulk is contained in transfers to local and provincial government and certain public entities such as PRASA and ESKOM), the data does point to capital spending not growing adequately. In fact, it declines by a real annual average of over 8 per cent over this period from a relatively low base. The fact that compensation consistently grow faster than goods and services is also a concern.

As reflected in Table 4 , Budget 2020 attempts to reverse some of the historical trends in the composition of expenditure. Real annual average growth in current payments is projected to slow to under 1 per cent per annum over the next three years, mostly driven by wage growth moderation. As was the case previously, expenditure growth remains driven by rapid growth in debt service costs of, on average, 7 per cent per annum. The next three years will see government rein in spending on compensation and shift emphasis to capital spending. To this end, real growth in compensation spending is projected to decline by 1 per cent per annum over the next three years. Conversely capital spending is set to grow by a real annual average of 4.8 per cent per annum over the 2020 MTEF period. Both goods and service and transfers and subsidies will experience slower real growth over the next three years. Spending efficiencies in government entities will be necessary to safeguard service delivery.

Table 4 – Consolidate expenditure by economic classification, 2016/17 to 2022/23

R billion	Audited Outcome 2016/17	Revised Estimate 2019/20	MTEF Estimate 2022/23	Real Annual Average Growth Rate - 2016/17--2019/20	Real Annual Average Growth Rate - 2019/20-2022/23
Current payments	**872.0**	**1,095.9**	**1,286.3**	**3.2%**	**0.9%**
Compensation of employees	510.3	629.2	697.1	2.6%	-1.0%
Goods and services	208.1	251.7	288.5	1.9%	0.1%
Interest and rent on land	153.6	215.0	300.7	7.0%	7.0%
of which: debt-service costs	*146.5*	*205.0*	*290.1*	7.0%	7.4%
Transfers and subsidies	**472.9**	**599.7**	**713.4**	**3.5%**	**1.4%**
Payments for capital assets	**93.6**	**82.8**	**109.0**	**-8.2%**	**4.8%**
Buildings and other capital assets	72.8	63.7	85.7	-8.5%	5.6%
Machinery and equipment	20.8	19.1	23.3	-7.1%	2.2%
Total	**1,445.7**	**1,843.5**	**2,136.0**	**3.7%**	**0.5%**
Contingency reserve	–	-	5.0		
Consolidated expenditure	**1,445.7**	**1,843.5**	**2,141.0**	**3.7%**	**0.5%**

Source: National Treasury, Budget Review 2020

The Commission welcomes the attempts to better manage the public sector wage bill and the strong emphasis on capital spending, however the extent to which potential gains from these steps will be realised, remain uncertain at this point.

Compensation of employees spending dominate provincial budgets and should government not realise the R160 billion projected savings, the effect on provinces, which are also responsible for the delivery of education and health, will be severe. As a result, this remains a critical risk embedded in the 2020 Budget. As previously recommended by the Commission, alongside steps to better manage the wage bill, government needs to more effectively link pay increases to productivity. To this end the Commission's submission on the 2016/17 Division of Revenue (DoR) recommended the development of a framework for measuring productivity as the first step to benchmarking improvements in public-sector productivity. Furthermore, and as proposed in the Commission's submission on the 2019 MTBPS, measures to effect wage bill savings should be extended to include SOEs and LGs.

In relation to capital spending government needs to ensure that accompanying steps are taken to improve spending on repairs and maintenance. Physical infrastructure will continue to deteriorate if current expenditure, including maintenance, is not properly funded.

3.3.4 Public sector infrastructure spending

Over the next three years, government intends spending R815 billion on public sector infrastructure[1]. Apart from a real increase in 2019/20, allocations to public sector infrastructure have deteriorated over the period reviewed. This trend is projected to continue over the next three years with projected real declines of 0.5 per cent, 1.3 per cent and 5.7 per cent for 2020/21, 2021/22 and 2022/23 respectively. A disaggregation of real annual average growth trends by sector over the period 2016/17 to 2022/23 (See Table 5), illustrates the consistent erosion of infrastructure spending which looks set to continue over the 2020 MTEF period. Generally, the overall trends underpinning public sector infrastructure are not in line with the common statements that South Africa is implementing a strategy of infrastructure-led growth (see SONA, 2020).

Table 5 – Real annual growth in public sector infrastructure spending by sector, 2016/17 to 2022/23

%	Real Annual Average Growth Rate 2016/17-2019/20	Real Annual Average Growth Rate 2019/20-2022/23
Energy	-13.4%	-7.3%
Water and sanitation	-1.6%	1.9%
Transport and logistics	3.7%	0.5%
Other economic services	-7.1%	-5.6%
Health	0.2%	-2.6%
Education	-1.4%	-2.3%
Human settlements	-3.5%	-13.5%
Other social services	-3.6%	-5.4%
Administration services	-6.4%	1.3%
Total	**-3.4%**	**-2.5%**

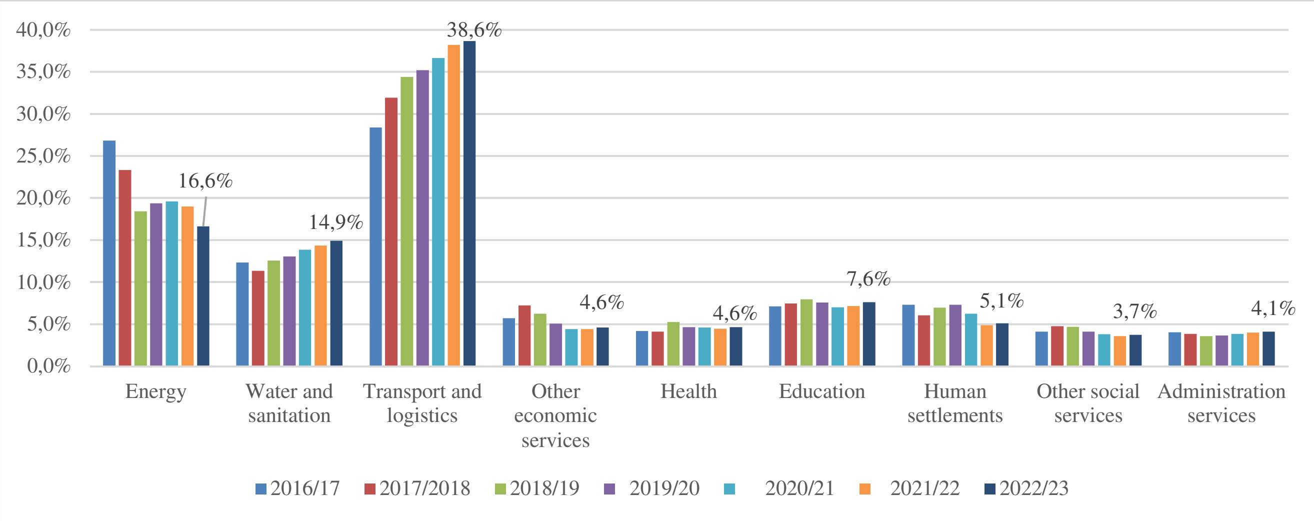
Source: The National Treasury, Budget Review 2020. Commission calculations.

More than two thirds of all public sector infrastructure spending revolve around transport and logistics, energy, and water and sanitation. In terms of responsibility, infrastructure spending is largely carried out by SOEs and municipalities. From a real growth perspective, infrastructure spending in three sectors (water and sanitation, administration services, and transport and logistics) are relatively protected over the next three years (see Table 5). It is hoped that the R8.5 billion reduction to PRASA and R4.3 billion to the public transport network grant will not negatively affect plans outlined in the 2020 SoNA to fix and modernise the rail network.

[1] In this section, the term infrastructure is used broadly to incorporate spending on new assets, replacements, maintenance and repairs, upgrades, rehabilitation and refurbishment of assets

Combined with a reducing proportional share of resources (see Figure 3**Error! Reference source not found.**), there is a real decline in spending on energy infrastructure over the period reviewed. Similarly, infrastructure spending in the human settlements sector will face a significant real annual average decline of 13.7 per cent per annum over the 2020 MTEF period.

Figure 3 – Share of total public infrastructure funding allocated by sector, 2016/17 to 2022/23



Source: Budget Review 2020. FFC calculations

As noted in various Commission submissions[2], poor performance in terms of spending and outputs characterise the public sector infrastructure portfolio. To bolster performance, government has implemented a range of initiatives which include, amongst others:

- The establishment of the Presidential Infrastructure Coordinating Commission (PICC) in 2012;
- The establishment of the Municipal Infrastructure Support Agency (MISA) in 2012;
- The budget facility for infrastructure (BFI) which was established in 2016 and aims to support the planning and execution of large, priority infrastructure projects and programmes;
- The development of the infrastructure delivery management system (IDMS) that has been under construction since 2002 and which was rolled out to key provincial departments and is now being piloted at local government level;
- More recently, an infrastructure fund that will focus on blended finance for large scale infrastructure projects has been established; and
- In the 2020 SONA, the President announced the establishment of an Investment and Infrastructure Office in the Presidency.

[2] For further information see Submission for Division of Revenue 2020/21 (chapter four focuses on local government infrastructure and efficiency), Submission for Division of Revenue 2019/20 (chapter five focusses on provincial infrastructure programmes) and Submission for Division of Revenue 2016/17 (entire submission is focused on infrastructure).

Despite these various initiatives, infrastructure spending and its outputs remain poor. Potential overlap between the various initiatives may also exist, making it worthwhile to clarify responsibility at the lowest appropriate level and most relevant sphere.

The Budget Review notes that the declining overall trend characterising public sector infrastructure is as a result of:

- SOEs struggling to access capital markets to finance infrastructure;
- Underspending on conditional grants (most of which are aimed at financing infrastructure); and,
- Insufficient own revenue, particularly in the case of municipalities, to finance capital projects.

3.4 The division of revenue between the spheres

Table 6 – Division of nationally raised revenue

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion		Outcome		Revised estimate		Medium-term estimates	
National departments	555,6	592,6	634,3	**739,5**	**757,7**	**768,9**	**797,8**
Indirect transfers to provinces	3,6	3,8	3,9	3,9	4,1	4,8	5,1
Indirect transfers to local government	8,1	7,8	7,8	7,0	7,6	7,2	8,2
Provinces	500,4	538,6	572,0	**612,8**	**649,3**	**692,0**	**730,7**
Equitable share	410,7	441,3	470,3	505,6	538,5	574,0	607,6
Conditional grants	89,7	97,2	101,7	107,3	110,8	118,0	123,1
Local government	**102,9**	**111,1**	**118,5**	**125,0**	**132,5**	**142,4**	**151,4**
Equitable share	50,7	55,6	60,8	67,0	74,7	81,1	87,2
Conditional grants	40,9	43,7	45,3	44,9	43,8	46,2	48,1
General fuel levy sharing with metros	11,2	11,8	12,5	13,2	14,0	15,2	16,1
Provisional allocation not assigned to votes[1]	–	–	–	–	-7,8	-16,1	-34,9
Non-interest allocations	**1 158,9**	**1 242,3**	**1 324,8**	**1 477,3**	**1 531,7**	**1 587,2**	**1 645,1**
Debt-service costs	146,5	162,6	181,8	205,0	229,3	258,5	290,1
Contingency reserve	–	–	–	–	5,0	5,0	5,0
Main budget expenditure	**1 305,4**	**1 404,9**	**1 506,6**	**1 682,3**	**1 766,0**	**1 850,7**	**1 940,2**

Source: National Treasury, Budget Review 2020

Table 6 indicates that in 2020/21, of the available national revenue of R1.5 trillion, 757.7 billion (or 49.2 per cent of the total) will go to national government, R649.3 billion (42.2 per cent) to provincial government and R132.5 billion (9.9 per cent) to LG. The provincial share is composed of the equitable share of R538.5 billion and conditional grants of R110.8 billion. The local government share is split between the equitable share (R74.7 billion) and conditional grants (R43.8 billion).

The largest proportion of municipal funding (72 per cent on average) is from own revenue sources, mainly from property rates, fees and penalties, and service charges. There are, however, wide variations between types of LG and between different municipalities of the same type. For example, metropolitan councils generate on average 83 per cent of income from own sources while district municipalities generate 18 per cent from own sources and local municipalities 64 per cent.

Table 7 gives the shares of non-interest allocations, excluding the contingency reserve allocated to the different spheres. Between 2016/17 and 2019/20 the national share increased to 50.1 per cent mostly due the need for increased financial assistance to SOEs. The matters of governance and performance of SOEs are therefore of critical importance to the division of revenue as increasing demands from SOEs directly affects the funding available provinces and LG, but also because it influences the services the two spheres provide to citizens and their other funding sources (fees for services rendered).

Over the MTEF there is somewhat of a correction in the distribution, with the national share declining to 47.5 per cent and provinces reaching 43.5 per cent and LG 9 per cent. Similarly, the rapid growth on debt service costs impacts on provinces and local government.

Table 7 – Division of revenue (percentage shares, 2016/17 to 2022/23)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
% of total	Outcome			Revised estimate	Medium-term estimates		
National departments	*47,9%*	*47,7%*	*47,9%*	*50,1%*	*49,2%*	*48,0%*	*47,5%*
Provinces	*43,2%*	*43,4%*	*43,2%*	*41,5%*	*42,2%*	*43,2%*	*43,5%*
Local government	*8,9%*	*8,9%*	*8,9%*	*8,5%*	*8,6%*	*8,9%*	*9,0%*

Source: National Treasury, Budget Review 2020

3.5 Trends in funds available to provinces and local government

While baselines have been adjusted downward, there are still substantial funds available to provinces and LGs and key budget lines remain somewhat protected against the effect of inflation.

After having grown strongly in real terms over the last three years, the national share is estimated to decline in real terms by an average annual 1.9 per cent over the next three years. In contrast the PES grows by 1.4 per cent per year in real terms and the local government share by 2 per cent. While provincial conditional grant grows marginally over the MTEF (0.2 per cent per year), the equitable share grows by 1.7 per cent per year. The LG equitable share continues to grow strongly (by 4.5 per cent per year in real terms) following on average annual growth of 5 per cent per year over the previous three years. The Local Government Conditional Grants, however, continues their real decline. After declining by 1.4 per cent per year over the previous three years, they decline by 2.1 per cent per year over the next three years. (See Table 8)

Table 8 – Nominal and real change in funds available to the three spheres

% change	Average annual nominal growth 16/17 to 19/20	Average annual nominal growth 19/20 to 22/23	Average annual real growth 16/17 to 19/20	Average annual real growth 19/20 to 22/23
National departments	**10,0%**	2,6%	**5,2%**	-1,9%
Provinces	7,0%	6,0%	2,4%	1,4%
Equitable share	7,2%	6,3%	2,5%	1,7%
Conditional grants	6,1%	4,7%	**1,5%**	0,2%
Local government	6,7%	6,6%	2,1%	2,0%
Equitable share	9,7%	9,2%	5,0%	4,5%
Conditional grants	3,1%	2,4%	-1,4%	-2,1%
General fuel levy sharing with metros	5,5%	6,9%	0,9%	2,3%
Non-interest allocations	**8,4%**	**3,7%**	**3,7%**	**-0,9%**

Source: National Treasury, Budget Review 2020

While continuing real growth in the provincial and equitable share may be seen as a source of comfort, the reality is that demand increases as a result of population growth, shifts in demand as well as a range of cost increases above inflation (wage growth in particular, but also cost of network services) are reducing the purchasing power of provincial and local government providers. For basic education, in particular, it has been shown clearly how increasing learner numbers and cost increases lead to pressures in provinces with resultant non-filling of posts and increasing class sizes. Similar factors, however, are at work in health, social development and other provincial and LG functions. The relatively low growth rate of transfers over the MTEF puts gains that have been made in certain areas of service delivery over the past decade, as pointed out in Section 2.

Trends in the division of revenue therefore point to the urgency of turning around growth trends as well as governance trends that leads to unproductive use of resources. There is also an urgent need for more effective support in turning around struggling municipalities and provinces. While problems and warning signals continue to be identified, there is little evidence of ability to correct situations, although recent National Treasury interventions around underfunded municipal budgets (because of unrealistic revenue projections) may be an exception.

Another key risk in the local and provincial financial environment is the fact that capital grants continue to be adjusted downwards and currently to decrease in real terms despite extensive evidence of the need for maintenance, replacement and additions to infrastructure.

3.9 Baseline adjustments to the division of revenue (compared to Budget 2019)

Given the need to contain expenditure for fiscal consolidation, estimated allocations in Budget 2019 had to be reduced. Table 9 provides the aggregate baseline adjustments for the three spheres. The baseline increases for national in 2021 reflects the additional financial assistance required by SOEs. Provincial baselines are cut by nearly R8 billion in 2020/21 and by R9 billion in 2021/22. Local government baselines are cut by R5.3 billion in 2020/21 and R7.1 billion in 2021/22.

The largest downward adjustments in LG relate to the Urban Settlements Development Grant (R5.8 billion over the MTEF), the Public Transport Network Grant (R4.3 billion), the Equitable Share (R3.2 billion over the MTEF), the Municipal Infrastructure Grant (R2.5 billion), the Water Services Infrastructure Grant (R1.7 billion) and the Integrated National Electrification Programme (R1.2 billion).

The largest downward adjustment relating to provincial government are to the Provincial Equitable Share (PES) (R7.3 billion over the MTEF), the Human Settlements Development Grant (HSDG) ((R6.7 billion), Provincial Roads Maintenance Grant (R2.8 billion), the Education Infrastructure Grant (R1.9 billion) and the Informal Settlements Upgrading Partnership (R885 billion).

Table 9 – Adjustments to division of revenue baselines (Budget 2020 against Budget 2019 estimates)

R million	2020/21	2021/22
National departments	24 597	-8 804
Provinces	-7 858	-9 049
Local government	-5 352	-7 056
Allocated expenditure	**11 387**	**-24 910**

Source: National Treasury, Budget Review Annexure W1 Explanatory memorandum to the division of revenue

With effect to expenditure areas, baseline reductions have been affected as shown in Table 10**Error! Reference source not found.**. Reductions amounting to R260 billion will be implemented over the next three years with the bulk of this amount (61 per cent) projected to come from downward adjustments of baseline wage bill estimates. The largest portion of wage bill reductions are projected to come into effect in the outer year of the MTEF period (2022/23). There will be R101 billion of programme baseline reductions. Of the total R261 billion of baseline savings, R111 billion will be allocated to pressing priorities. In terms of baseline allocations, R111 billion will be added to programmes. Over half of this amount (55 per cent) will go to financially supporting SOEs, particularly Eskom and South African Airways while 20 per cent is in respect of additions to government programme allocations. Most (73 per cent) of the addition to SOEs will be allocated in 2020/21.

Table 10 – Baseline shifts effected in Budget 2020

	MTEF TOTAL	2020/21	2021/22	2022/23
Baseline reductions and reallocations	**-261**	**-66**	**-88**	**-107**
Programme baseline reductions	-101	-28	-33	-39
Wage bill reductions	-160	-38	-55	-67
Baseline allocations	**111**	**59**	**30**	**22**
Financial support for state-owned companies	60	44	14	2
Net change in adjustments announced in 2019 Budget	27	8	8	12
Programme allocations	24	7	8	8
Allocated in 2020 Budget	**4,764**	**1,532**	**1,587**	**1,645**
Plus: Contingency reserve	15	5	5	5
2020 Budget non-interest expenditure	4,779	1,537	1,592	1,650
Change in non-interest expenditure since 2019 Budget	*-156*	*-9*	*-61*	*-86*

Source: The National Treasury, Budget Review 2020.

3.6 Changes to provincial allocations

Changes in the provincial equitable shares, in addition to other adjustments, also reflect the effect of lower estimates of future consumer price index inflation and its effect on projected compensation spending. These have allowed a further reduction of R2.5 billion in 2020/21 and R2.7 billion in 2021/22 from the provincial equitable share.

Table 13 to Table 21 provide a more detailed view of the provincial funding (equitable share and conditional grant) and baseline changes compared to Budget 2019.

3.7 Horizontal division of revenue

The vertical division of revenue refers to the division of funds between the three spheres of government: national, provincial and local. The horizontal division refers to division of funds between the different units in the same sphere. The analysis of the horizontal division provides an indication of the extent of responsiveness of funding to differences in socio-economic environment (redistribution), special cost factors and economic and taxable capacity. Table 11 provides one perspective on the division of revenue and redistribution between provinces. It shows that the poorer provinces, which also contribute less to production and taxes, receive a larger transfer per person than the wealthier provinces. For example, in 2020/21 the per person transfer from national (including the provincial equitable share and conditional grants) for the Eastern Cape will be R12 498 compared to the R8 752 per person that will go to Gauteng.

Table 11 – Average transfer per person to provinces – provincial equitable share and conditional grants (R nominal and average annual change)

Province	2016/17	2017/2018	2018/19	2019/20	2020/21	2021/22	2022/23	Ave Ann Change 16/17-19/20	Ave Ann Change 19/20-22/23
Eastern Cape	10 235	10 943	11 492	12 066	12 498	13 113	13 736	5,6%	4,4%
Free State	10 448	11 097	11 742	12 487	13 201	13 834	14 515	6,1%	5,1%
Gauteng	6 988	7 429	7 752	8 276	8 752	9 194	9 590	5,8%	5,0%
KwaZulu-Natal	9 689	10 250	10 706	11 268	11 694	12 169	12 628	5,2%	3,9%
Limpopo	9 609	10 163	10 748	11 374	11 981	12 540	13 134	5,8%	4,9%
Mpumalanga	9 235	9 750	10 274	10 818	11 241	11 738	12 221	5,4%	4,1%
Northern Cape	12 003	13 053	13 671	14 173	14 721	15 244	15 901	5,7%	3,9%
North West	9 161	9 649	10 055	10 559	11 068	11 576	12 088	4,8%	4,6%
Western Cape	8 029	8 518	8 884	9 367	9 817	10 278	10 721	5,3%	4,6%
Total	**8 895**	**9 431**	**9 872**	**10 415**	**10 887**	**11 377**	**11 858**	**5,4%**	**4,4%**

Source: National Treasury provincial database; StatsSA population projections, December 2019; FFC calculations

3.8 Specific provincial conditional grants changes

3.8.1 Education grants

The Education Infrastructure Grant (direct) has been reduced by almost R1.9 billion over the 2020 MTEF. The school infrastructure backlogs (indirect) is also reduced by R123 million. The reductions to the baselines of these grants is of concern to the Commission given the importance of these grants in addressing the education sector infrastructure backlogs. The Commission believes there is a need to review the *status quo* of infrastructure delivery value chain, in line with the Commission's findings and recommendations[3]. The Commission highlighted weak delivery value chains between the sector departments and implementing agents including lack of oversight on key delivery points.

3.8.2 Social Development Grant

The Commission welcomes additional funds of R1.4 billion to the Early Childhood Development (ECD) Grant over the 2020 MTEF. These additional resources will ensure children have access to ECD including basic infrastructure. More importantly, the additional resources will see the *per capita* subsidy increase form R15 per day to R17 per day in 2020/21. This is in line with the Commission's recommendations made in the 2016/17 DoRA, which highlighted the need for a public funding window for ECD facilities.

3.6.3 Housing grants

The Human Settlement Grant's (HSG) objective is to establish habitable, stable and sustainable human settlements in which citizens will have access to social and economic amenities. In Budget 2020, R544 million has been ring fenced in the HSDG to upgrade settlements in mining towns in six provinces. The Commission supports this initiative, given the dire social and

[3] FFC Submission for the DoR 2019/20: Assessing Efficiency of Key Provincial Infrastructure Programmes

environmental challenges (such as lack of basic services, acid mine drainage, etc.) faced by communities in mining towns.

The Title Deeds Restoration Grant was introduced in Budget 2019 to accelerate the title deeds backlog eradication process. The grant will come to an end in 2020/21 and it has an allocation of R578 million which has been indicatively incorporated back into the HSDG grant. The Commission notes the termination of this grant but re-iterates its previous stance for the need for a review of this grant to determine whether its goals, targets and outcomes have been achieved.

3.6.4 Health grants

The Commission notes the R20 billion allocated through the Health Facility Revitalisation Grant (HFRG) over the 2020 MTEF. This grant will play an important role in the construction and maintenance of health infrastructure facilities (hospitals, nursing colleges) especially in the context of the envisaged National Health Insurance (NHI) reforms. Further, the Commission notes the shifting of the R199 million in 2020/21 and R5.7 million in 2021/22 from the NHI: HFGR indirect grant to the direct grant on HFGR for the Pietersburg Hospital project. The Commission welcomes this change as it is in line with its previous recommendations that there is a need to streamline conditional grants with same purpose so as to avoid duplication.

The Commission notes the creation of a new grant, the Statutory Human Resources Training and Development Grant, which is a merger of the Human Resources Capacitation Grant and the Health Professions Training and Development Grant. The statutory component will fund intern and community service posts (which were previously funded from the Human Resources Capacitation Grants) as well as some posts previously funded from the equitable share. The merged grant has been allocated R13 billion over the 2020 MTEF. The Commission supports the merger of grant with the same purpose to minimise inefficiencies associated with overlaps and duplication. However, the Commission notes with the concern the funding of some posts previously funded from the PES. These posts should be clearly stated so that no confusion and duplication can arise, resulting in wasteful expenditure.

On the HIV/AID, TB, Malaria and Community Outreach Grant, the Commission notes with concern the reprioritisation of R800 million in 2020/21 from the HIV/AIDS component of the grant to the community outreach services component to cover shortfall in the salaries of community health workers. Given the importance of these two components (HIV/AIDS and community outreach) grant in the system, the Commission acknowledges the significant role played by latter component in accelerating community outreach services at district level considering NHI reforms. However, reprioritising funds from the HIV/AIDS component is not advisable, given the fact that the HIV/AIDS epidemic continues to spread in the country. More so, the Commission is concerned about whether the targets set for this grant would be achieved.

The Commission notes with concern the merger of the Human Papillomavirus Vaccine (HPV) Grant to the HIV/AIDS, TB, Malaria, and Community Outreach Grant in the 2020/21 budget. The latter grant already has various extension to its scope (TB, Malaria and Community

Outreach), and the Commission is thus of the view that the grant already has too many objectives which could hamper the realisation of its targets and intended outcomes. Furthermore, when the HPV was introduced in 2014/15, it was indicated in the 2014 Budget Review that it would be funded via NHI indirect grant component for 2014/15 and 2015/16 and thereafter would be incorporated into the PES. However, over the years, the Commission has observed that the grant has become a direct grant to provinces. The Commission re-iterates its previous submission with regards to this grant, that proper financial planning and infrastructure is needed in relation to the roll out of such a critical vaccine. Funding the vaccine via the conditional grant and even phasing its funding into the PES is unlikely to be sustainable given the high cost of this vaccine. In countries such as Kenya, the vaccine is funded through Public Private Partnerships (PPP). Government could explore a PPP option for the funding of this vaccine to enhance sustainability.

3.6.5 Agriculture grants

Over the MTEF, R1.8 billion has been allocated to the Ilima/Letsema Grant, which included R36 million shifted from the direct Ilima/Letsema Grant to the newly created indirect grant (Ilima/Letsema Grant), to fund a survey that would improve targeting of poverty relief programmes. Budget 2020 indicates that the shift to the indirect grant will allow the department to pay the Human Resources Research Council for the project/survey done. The Commission supports the initiative of using an indirect component to pay for this survey as it will improve the targeting of resources for poverty relief purposes.

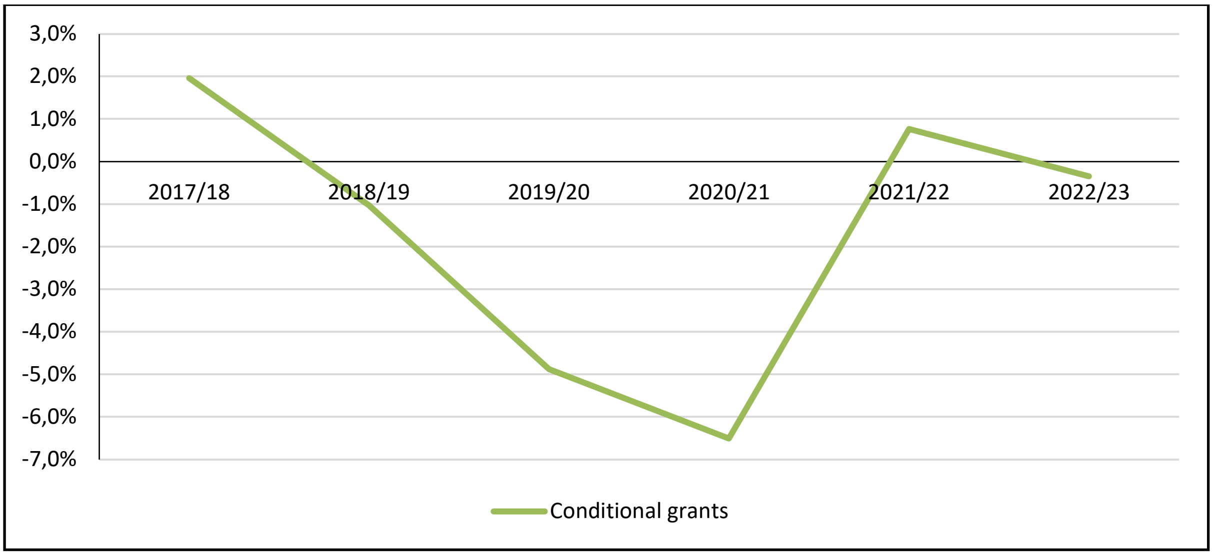
The objectives of the Land Care Programme Grant: poverty relief and infrastructure development are to improve productivity and sustainable use of natural resources. Over the 2020 MTEF, R257 million has been allocated for this grant. The budget further states that, provinces are also encouraged to use this grant to create jobs through the Expanded Public Works Programme. The Commission would like to caution the extension of the scope of this grant, other than for its intended objectives (so that outcomes and targets can be met) so as to guard against duplication. For instance, there is EPWP grant for objectives such as those.

3.7 Local government conditional grants

As noted above, the LG sector is to receive R138.2 billion in the form of conditional grants over the 2020 MTEF, with infrastructure grants accounting for 96 per cent of the allocations, and capacity grants accounting for 4 per cent. LG conditional grants are expected to register negative (-2.1 per cent) real average growth rate over the MTEF (Figure 4). Such growth rates make it imperative for the sector to use available resources efficiently as service delivery is likely to bear the brunt of below inflation growth rates.

This negative real growth rate is a result of baseline reductions envisaged in the 2020 MTEF. During the 2020 MTEF, grant baselines are expected to be reduced by R21 billion; R3.2 billion from the LES, R16.8 billion from direct conditional grants and R1.2 billion from indirect conditional grants.

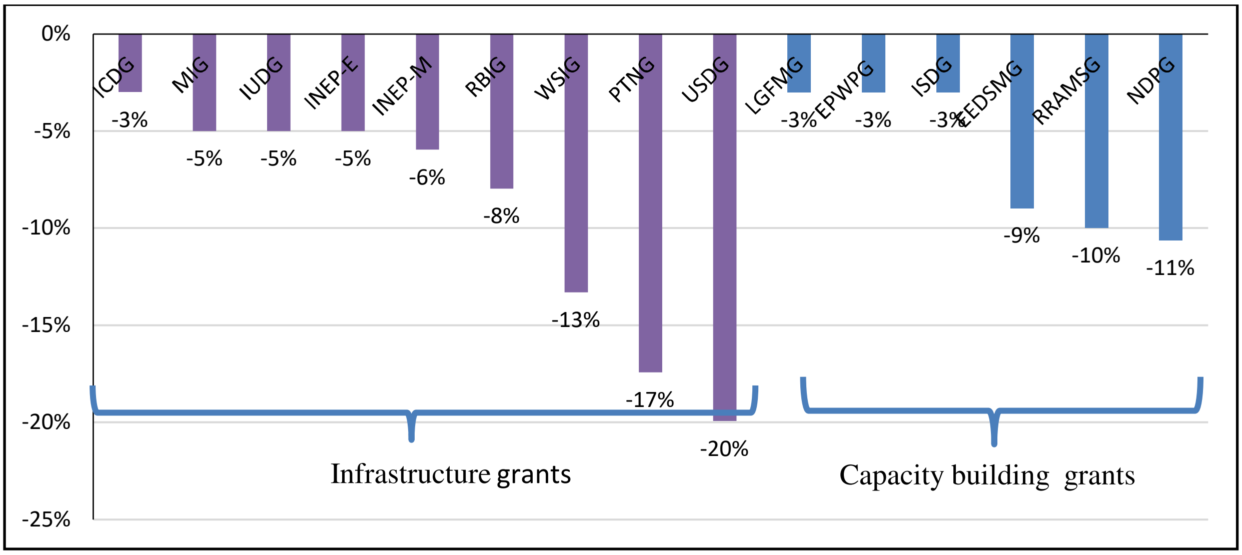
Figure 4 – Local government conditional grants growth rate



Source: Commission illustration from National Treasury Budget 2020 data base

The percentage baseline reductions on different LG grants over the 2020 MTEF are shown in Figure 5**Error! Reference source not found.** below. On average baselines will be reduced by 11 per cent over the 2020 MTEF, with reductions being more severe in the two outer years (11 per cent and 12 per cent in 2021/22 and 2022/23, respectively. Two issues of concern to the Commission regard the baseline reductions. First, infrastructure grants are expected to bear a disproportionate burden of the reductions, compared to capacity building grants. The baselines of infrastructure grants will be reduced by 11 per cent compared to 10 per cent for capacity building grants. With the economy struggling to recover, it is important that government pursue its infrastructure led growth strategy with more vigour. The high baseline reductions on infrastructure grants will negate this strategy. Although the government has noted that reductions were mainly targeted at poorly performing grants in terms of spending, whether the grant used to fund salaries and food, or whether historic allocations have increased more rapidly, it would seem the reductions will also target disproportionately bigger grants (WSIG, USDG, PTNG and ICDG). Looking at spending performance (measured as proportion of annual budget spent) of these grants the Commission's initial analysis suggests that only the INEP (ESKOM) grant was a good candidate for reductions. Other grants, e.g. the PTNG, MIG, WSIG (direct) WSIG (indirect) and USDG have spent a high proportion of available funding (Table 12).

Figure 5 – Percentage baseline reductions over the 2020 MTEF



Source: Commission from National Treasury Budget 2020 data base

Table 12 – Performance of local government grants

Years	PTNG	MIG	WSIG (Direct)	WSIG (Indirect)	USDG	INEP (ESKOM)
2015/16	100%	99%	87%	92%	100%	64%
2016/17	93%	93%	83%	95%	100%	94%
2017/18	99%	92%	99%	97%	100%	73%
2018/19	100%	92%	100%	95%	100%	60%

Source: National Treasury, MTBPS 2019. Commission calculations of real growth.

3.10 Government responses to the Commission's recommendations

The Commission tabled its *Submission for the Division of Revenue 2020/21* to Parliament in May 2019. As required by the IGFR Act, government published its response to the recommendations made by the Commission for the 2020/21 DoRA when the Minister of Finance tabled the 2020 Division of Revenue Bill with the annual budget in the National Assembly.

- The 2020/21 submission comprises five chapters, with a total of 19 recommendations. Government has responded to eight recommendations that have either a direct or indirect bearing to the division of revenue. A concern of the Commission lies on the balance of the recommendations not responded to, especially regarding the organ of state that is going to coordinate and collect all the responses not considered by government as relating to the DoRA. The mandate of the Commission goes beyond the DoRA to other fiscal policy issues which impact on the availability to the three spheres of funds to fulfil their functions. The risk is that the balance of the recommendations will not be considered or implemented. In this regard advice of Parliament is important.

- Government agrees with most of the recommendations made by the Commission. For instance, government has accepted recommendations pertaining to (a) Supplementary revenue sources for local government and as such, government has prioritised various reforms with regards to the matter; (b) Municipal government capacity building in terms of technical support for new systems, innovative business process design and change management; (c) Local government infrastructure management and efficiency, where for instance there should be shared project management capacity in district municipalities so as to improve coordination of infrastructure delivery.
- In addition, for some recommendations government has indicated the processes that will be put in place to address them. For instance, government supports collaborative processes to be in place so as to better understand and define municipal functionality, hence the proposal for a Local Government Budget Forum Lekgotla to be held in June 2020 to discuss, among other matters, municipal functionality. Likewise, with processes that need to be in place or enhanced so as to improve oversight of the implementation of municipal infrastructure projects.

3.11 COVID-19 – Implications of regulations and directions on the division of revenue

To date regulations in terms of section 27(2) of the Disaster Management Act (issues on 18, 25, 26 March and 2 and 16 April) and disaster response directions (directives) from the Minister of Cooperative Government have dealt with three broad matters relevant to provinces and responsibilities, namely structures to establish, specific areas of responsibility and facilitating and financing mechanisms.

Regarding structures, provinces and municipalities are mandated to establish a command centre and the necessary coordinating structures. Related to these structures is the directive to develop response plans, based amongst other things on a risk profiling, and for monitoring and reporting on development and implementation of the plans.

In the regulations and directives provinces and municipalities are also provided with several areas of responsibilities although the extent of allocation of functions to the different spheres are not adequately clear in some cases. The major ones are:

- Community awareness and education.
- Ensuring the safety of provincial and municipal workers
- Shelters for the homeless
- Identification of quarantine and isolation sites
- Ensuring access to essential services with water and waste management mentioned explicitly.

Two matters not explicitly mentioned in regulation and directives are health and food security which is also related to broader social distress and the relief thereof. Health is of course a primary responsibility for provinces and will require substantial additional financing. Ensuring access to food is becoming more of a challenge in the light of suspension of many informal market and school nutrition programmes and the increasing likelihood of the disruption of food supply chains. It is likely that municipalities will have to start playing a bigger role in this area of social distress and food relief.

About facilitation and financing of these additional activities there have not been very firm developments. To date the focus has been on facilitating measures such as instructing the authorisation of release of funds and reprioritisation of funds to implement regulations and directives and provision for emergency procurement. Given the precarious financial situation of many municipalities and the further negative impact of the lockdown and economic slowdown urgent support will be needed. Reprioritisation from conditional grants will be one potential source. More detail on a support package is expected in the wake of the Cabinet meeting of 21 April.

4. Conclusions

The COVID-19 pandemic has intensified the challenges faced by the South African government at the time of the February 2020 budget. On top of almost a decade of continuing, steady growth deceleration and a relentless upward shift in unemployment, the country now faces a sudden, further downward adjustment in production and income as international and local demand collapses, also because of lockdowns to subdue the spread of the disease and provide time to prepare for increased infections and deaths. The country's assets, human capital and business balance sheets, will also be affected significantly, making recovery harder. Unemployment is spiking as it is doing across the world.

Government expenditure must increase to deal with new demands in the health care sector, to ensure access to essential services, also for those who will become less possible to pay for these, and to support households, workers and firms. This will have to happen while revenues decline in line with economic activity: deficits and government debt will expand significantly.

The Budget and Division of Revenue Bill as tabled were sound responses to the situation in February although even slow stabilisation of the deficit and debt trajectories required downward baseline adjustments to key infrastructure grants and further slowing key expenditure lines in the social services and other priority areas.

While the FFC therefore supports the overall thrust of the February Budget and the DOR Bill it believes the following issues need to be raised:

- Society and government should arrive at a mechanism for effecting stabilisation that is more fair and less polarising than through wage restraint for the workers we most rely on to secure our future: teachers, nurses, police, prosecutors, social workers. While these civil servants may have done better than many other South Africans over the last decade this is also true for all (including private sector) in the higher income classes.

- While tax increases were not considered feasible in the February budget to help balance the books, COVID-19 has strongly highlighted the continuing, large inequality in our society. This has now prompted proposals around a solidarity tax to ensure an effective and equitable strategy to confront the virus. A more general strategy around incomes, prices and access to essential goods and services (including social services) might also be necessary.
- The complexity and comprehensiveness of the initiatives around the structural, economic changes reiterated in the February budget point to the need for a more focused approach that has credibility and can be implemented.

The Commission recommends, given the circumstances since the tabling of February 2020 Division of Revenue which include the level of economic growth; the country's credit rating downgrade; increasing fiscal constraints; the impact of the COVID-19 pandemic on fiscal resources, including the capacity of markets and public resources, that:

- The Select Committee consider approving the Division of Revenue
- The Select Committee consider and note that the emergency interventions and measures will have implications for the fiscal position of national, provincial and local government public spending and revenues.

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Annexure Provincial Revenue – 2020/21 and 2021/22, with baseline adjustments (changes from Budget 2019 to Budget 2020)

Table 13 – Eastern Cape: Provincial revenue

Eastern Cape	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**71 415 216**	**72 743 508**	**(1 328 292)**	**75 305 964**	**71 415 216**	**3 890 748**
Direct Conditional Grants	**12 487 611**	**12 207 349**	**280 262**	**12 762 758**	**12 487 611**	**275 147**
Education Infrastructure Grant	1 544 114	1 564 208	(20 094)	1 564 562	1 544 114	20 448
HIV and AIDS (Life Skills Education) Grant	44 878	47 878	(3 000)	47 017	44 878	2 139
Learners With Profound Intellectual Disabilities Grant	27 768	27 768	-	28 503	27 768	735
Maths, Science and Technology Grant	50 497	51 875	(1 378)	53 244	50 497	2 747
National School Nutrition Programme Grant	1 376 343	1 348 960	27 383	1 423 153	1 376 343	46 810
HIV, TB, Malaria and Community Outreach Grant	2 667 462	2 695 032	(27 570)	3 036 536	2 667 462	369 074
Health Facility Revitalisation Grant	669 533	610 773	58 760	658 646	669 533	(10 887)
National Health Insurance Grant	45 262		45 262	47 025	45 262	1 763
Statutory Human Resources, Training and Development Grant	366 523	329 150	37 373	382 244	366 523	15 721
National Tertiary Services Grant	1 080 846	1 062 132	18 714	1 128 688	1 080 846	47 842
Provincial Roads Maintenance Grant	1 629 401	1 464 993	164 408	1 446 136	1 629 401	(183 265)
Public Transport Operations Grant	269 007	269 007	-	283 803	269 007	14 796
Comprehensive Agricultural Support Programme Grant	239 838	265 946	(26 108)	254 455	239 838	14 617
Ilima/Letsema Projects Grant	67 955	79 393	(11 438)	76 002	67 955	8 047
Land Care Programme Grant	12 371	11 671	700	12 813	12 371	442
Human Settlements Development Grant	1 803 294	1 634 932	168 362	1 491 219	1 803 294	(312 075)
Informal Settlements Upgrading Partnership Grant	-	335 216	(335 216)	432 428	-	432 428
Title Deeds Restoration Grant	64 254	64 254	-	-	64 254	(64 254)
EPWP Grant	107 789	-	107 789	-	107 789	(107 789)
Social Sector EPWP Grant	55 202	-	55 202	-	55 202	(55 202)
Early Childhood Development Grant	134 142	91 117	43 025	150 366	134 142	16 224
Community Library Services Grant	166 506	179 156	(12 650)	179 114	166 506	12 608
Mass Participation and Sport Development Grant	64 626	73 888	(9 262)	66 804	64 626	2 178

Source: National Treasury, Provincial Database.

Table 14 – Free State: Provincial revenue

Free State	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**30 017 344**	**30 337 928**	**(320 584)**	**31 897 379**	**30 017 344**	**1 880 035**
Direct Conditional Grants	**8 238 538**	**7 985 223**	**253 315**	**8 327 100**	**8 238 538**	**88 562**
Education Infrastructure Grant	840 429	722 425	118 004	815 981	840 429	(24 448)
HIV and AIDS (Life Skills Education) Grant	11 853	14 853	(3 000)	12 295	11 853	442
Learners With Profound Intellectual Disabilities Grant	26 670	27 670	(1 000)	28 140	26 670	1 470
Maths, Science and Technology Grant	37 337	38 714	(1 377)	39 426	37 337	2 089
National School Nutrition Programme Grant	431 851	422 767	9 084	446 019	431 851	14 168
HIV, TB, Malaria and Community Outreach Grant	1 472 363	1 487 423	(15 060)	1 675 705	1 472 363	203 342
Health Facility Revitalisation Grant	586 745	527 985	58 760	569 368	586 745	(17 377)
National Health Insurance Grant	21 496		21 496	22 334	21 496	838
Statutory Human Resources, Training and Development Grant	237 019	225 678	11 341	245 279	237 019	8 260
National Tertiary Services Grant	1 209 781	1 213 591	(3 810)	1 257 214	1 209 781	47 433
Provincial Roads Maintenance Grant	1 447 285	1 301 253	146 032	1 284 503	1 447 285	(162 782)
Public Transport Operations Grant	297 410	297 410	-	313 768	297 410	16 358
Comprehensive Agricultural Support Programme Grant	176 167	183 441	(7 274)	188 030	176 167	11 863
Ilima/Letsema Projects Grant	68 442	74 468	(6 026)	76 547	68 442	8 105
Land Care Programme Grant	8 378	8 878	(500)	8 866	8 378	488
Human Settlements Development Grant	950 798	917 011	33 787	786 254	950 798	(164 544)
Informal Settlements Upgrading Partnership Grant	-	176 745	(176 745)	228 001	-	228 001
Title Deeds Restoration Grant	33 860	33 860	-	-	33 860	(33 860)
EPWP Grant	24 085	-	24 085	-	24 085	(24 085)
Social Sector EPWP Grant	39 572	-	39 572	-	39 572	(39 572)
Early Childhood Development Grant	55 768	27 186	28 582	53 010	55 768	(2 758)
Community Library Services Grant	167 082	177 982	(10 900)	178 575	167 082	11 493
Mass Participation and Sport Development Grant	94 147	105 883	(11 736)	97 785	94 147	3 638

Source: National Treasury, Provincial Database.

Table 15 – Gauteng: Provincial revenue

Gauteng	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**112 117 907**	**111 635 689**	**482 218**	**121 121 075**	**112 117 907**	**9 003 168**
Direct Conditional Grants	**23 935 384**	**24 058 098**	**(122 714)**	**25 123 380**	**23 935 384**	**1 187 996**
Education Infrastructure Grant	1 497 757	1 440 169	57 588	1 515 249	1 497 757	17 492
HIV and AIDS (Life Skills Education) Grant	36 869	39 869	(3 000)	38 565	36 869	1 696
Learners With Profound Intellectual Disabilities Grant	33 715	33 715	-	35 024	33 715	1 309
Maths, Science and Technology Grant	57 106	58 483	(1 377)	60 185	57 106	3 079
National School Nutrition Programme Grant	905 006	895 774	9 232	945 042	905 006	40 036
HIV, TB, Malaria and Community Outreach Grant	5 256 234	5 310 164	(53 930)	5 984 105	5 256 234	727 871
Health Facility Revitalisation Grant	968 210	909 450	58 760	980 733	968 210	12 523
National Health Insurance Grant	53 674		53 674	55 764	53 674	2 090
Statutory Human Resources, Training and Development Grant	1 336 008	1 227 899	108 109	1 382 650	1 336 008	46 642
National Tertiary Services Grant	5 025 579	5 041 407	(15 828)	5 222 622	5 025 579	197 043
Provincial Roads Maintenance Grant	745 007	669 835	75 172	661 213	745 007	(83 794)
Public Transport Operations Grant	2 599 291	2 599 291	-	2 742 249	2 599 291	142 958
Comprehensive Agricultural Support Programme Grant	100 108	99 476	632	106 583	100 108	6 475
Ilima/Letsema Projects Grant	30 928	33 733	(2 805)	34 590	30 928	3 662
Land Care Programme Grant	4 787	5 987	(1 200)	5 016	4 787	229
Human Settlements Development Grant	4 625 447	4 319 346	306 101	3 824 974	4 625 447	(800 473)
Informal Settlements Upgrading Partnership Grant	-	859 829	(859 829)	1 109 179	-	1 109 179
Title Deeds Restoration Grant	164 795	164 795	-	-	164 795	(164 795)
EPWP Grant	53 887	-	53 887	-	53 887	(53 887)
Social Sector EPWP Grant	51 087	-	51 087	-	51 087	(51 087)
Early Childhood Development Grant	135 229	72 658	62 571	148 461	135 229	13 232
Community Library Services Grant	166 781	177 681	(10 900)	177 703	166 781	10 922
Mass Participation and Sport Development Grant	87 879	98 537	(10 658)	93 473	87 879	5 594

Source: National Treasury, Provincial Database.

Table 16 – Kwa-Zulu Natal: Provincial revenue

Kwa-Zulu Natal	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**111 441 977**	**113 369 965**	**(1 927 988)**	**117 754 878**	**111 441 977**	**6 312 901**
Direct Conditional Grants	**22 011 062**	**21 781 134**	**229 928**	**22 592 123**	**22 011 062**	**581 061**
Education Infrastructure Grant	1 996 182	2 013 404	(17 222)	2 045 473	1 996 182	49 291
HIV and AIDS (Life Skills Education) Grant	62 450	65 450	(3 000)	65 555	62 450	3 105
Learners With Profound Intellectual Disabilities Grant	32 586	34 586	(2 000)	34 543	32 586	1 957
Maths, Science and Technology Grant	65 701	67 079	(1 378)	69 208	65 701	3 507
National School Nutrition Programme Grant	1 717 512	1 710 462	7 050	1 804 538	1 717 512	87 026
HIV, TB, Malaria and Community Outreach Grant	6 453 923	6 520 248	(66 325)	7 344 739	6 453 923	890 816
Health Facility Revitalisation Grant	1 271 414	1 212 653	58 761	1 307 702	1 271 414	36 288
National Health Insurance Grant	55 290		55 290	57 444	55 290	2 154
Statutory Human Resources, Training and Development Grant	593 830	521 648	72 182	615 010	593 830	21 180
National Tertiary Services Grant	2 015 775	2 022 124	(6 349)	2 094 811	2 015 775	79 036
Provincial Roads Maintenance Grant	2 076 547	1 867 023	209 524	1 842 991	2 076 547	(233 556)
Public Transport Operations Grant	1 246 362	1 246 362	-	1 314 912	1 246 362	68 550
Comprehensive Agricultural Support Programme Grant	206 446	217 191	(10 745)	219 645	206 446	13 199
Ilima/Letsema Projects Grant	73 233	79 392	(6 159)	81 905	73 233	8 672
Land Care Programme Grant	12 701	13 101	(400)	13 022	12 701	321
Human Settlements Development Grant	3 379 057	3 100 921	278 136	2 463 505	3 379 057	(915 552)
Informal Settlements Upgrading Partnership Grant	-	553 779	(553 779)	714 375	-	714 375
Title Deeds Restoration Grant	106 146	106 146	-	-	106 146	(106 146)
EPWP Grant	104 494	-	104 494	-	104 494	(104 494)
Social Sector EPWP Grant	78 881	-	78 881	-	78 881	(78 881)
Early Childhood Development Grant	193 437	123 807	69 630	215 165	193 437	21 728
Community Library Services Grant	181 072	194 572	(13 500)	195 377	181 072	14 305
Mass Participation and Sport Development Grant	88 023	111 186	(23 163)	92 203	88 023	4 180

Source: National Treasury, Provincial Database.

Table 17 – Limpopo: Provincial revenue

Limpopo	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**62 328 931**	**62 986 213**	**(657 282)**	**66 255 935**	**62 328 931**	**3 927 004**
Direct Conditional Grants	**9 890 179**	**9 530 337**	**359 842**	**9 920 024**	**9 890 179**	**29 845**
Education Infrastructure Grant	1 256 364	1 175 467	80 897	1 258 454	1 256 364	2 090
HIV and AIDS (Life Skills Education) Grant	28 137	31 137	(3 000)	29 475	28 137	1 338
Learners With Profound Intellectual Disabilities Grant	32 432	28 932	3 500	34 523	32 432	2 091
Maths, Science and Technology Grant	46 860	48 239	(1 379)	49 426	46 860	2 566
National School Nutrition Programme Grant	1 369 485	1 363 072	6 413	1 438 041	1 369 485	68 556
HIV, TB, Malaria and Community Outreach Grant	2 179 020	2 198 560	(19 540)	2 455 343	2 179 020	276 323
Health Facility Revitalisation Grant	742 473	484 830	257 643	528 577	742 473	(213 896)
National Health Insurance Grant	32 066		32 066	33 314	32 066	1 248
Statutory Human Resources, Training and Development Grant	232 171	201 375	30 796	242 052	232 171	9 881
National Tertiary Services Grant	445 200	436 684	8 516	464 898	445 200	19 698
Provincial Roads Maintenance Grant	1 294 756	1 164 114	130 642	1 149 130	1 294 756	(145 626)
Public Transport Operations Grant	402 035	402 035	-	424 147	402 035	22 112
Comprehensive Agricultural Support Programme Grant	233 558	268 605	(35 047)	247 733	233 558	14 175
Ilima/Letsema Projects Grant	70 480	79 393	(8 913)	78 827	70 480	8 347
Land Care Programme Grant	12 970	13 570	(600)	13 416	12 970	446
Human Settlements Development Grant	1 060 622	1 098 807	(38 185)	877 072	1 060 622	(183 550)
Informal Settlements Upgrading Partnership Grant	-	197 160	(197 160)	254 336	-	254 336
Title Deeds Restoration Grant	37 790	37 790	-	-	37 790	(37 790)
EPWP Grant	25 379	-	25 379	-	25 379	(25 379)
Social Sector EPWP Grant	59 073	-	59 073	-	59 073	(59 073)
Early Childhood Development Grant	127 724	73 616	54 108	130 331	127 724	2 607
Community Library Services Grant	143 221	151 500	(8 279)	150 410	143 221	7 189
Mass Participation and Sport Development Grant	58 363	75 451	(17 088)	60 519	58 363	2 156

Source: National Treasury, Provincial Database.

Table 18 – Mpumalanga: Provincial revenue

Mpumalanga	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**44 104 988**	**44 474 644**	**(369 656)**	**46 996 147**	**44 104 988**	**2 891 159**
Direct Conditional Grants	**8 312 315**	**7 997 201**	**315 114**	**8 547 647**	**8 312 315**	**235 332**
Education Infrastructure Grant	1 094 681	819 111	275 570	1 086 456	1 094 681	(8 225)
HIV and AIDS (Life Skills Education) Grant	19 994	22 994	(3 000)	21 259	19 994	1 265
Learners With Profound Intellectual Disabilities Grant	29 020	29 020	-	31 561	29 020	2 541
Maths, Science and Technology Grant	41 417	42 794	(1 377)	43 711	41 417	2 294
National School Nutrition Programme Grant	734 414	725 514	8 900	765 417	734 414	31 003
HIV, TB, Malaria and Community Outreach Grant	2 205 714	2 227 190	(21 476)	2 501 300	2 205 714	295 586
Health Facility Revitalisation Grant	423 922	365 162	58 760	393 783	423 922	(30 139)
National Health Insurance Grant	21 104		21 104	21 925	21 104	821
Statutory Human Resources, Training and Development Grant	189 495	171 620	17 875	197 562	189 495	8 067
National Tertiary Services Grant	135 793	131 234	4 559	141 778	135 793	5 985
Provincial Roads Maintenance Grant	1 042 917	937 686	105 231	925 616	1 042 917	(117 301)
Public Transport Operations Grant	676 941	676 941	-	714 173	676 941	37 232
Comprehensive Agricultural Support Programme Grant	157 303	167 864	(10 561)	167 672	157 303	10 369
Ilima/Letsema Projects Grant	57 374	64 887	(7 513)	64 169	57 374	6 795
Land Care Programme Grant	10 044	9 644	400	10 274	10 044	230
Human Settlements Development Grant	1 081 044	1 091 658	(10 614)	893 960	1 081 044	(187 084)
Informal Settlements Upgrading Partnership Grant	-	200 956	(200 956)	259 233	-	259 233
Title Deeds Restoration Grant	38 483	38 483	-	-	38 483	(38 483)
EPWP Grant	27 907	-	27 907	-	27 907	(27 907)
Social Sector EPWP Grant	34 934	-	34 934	-	34 934	(34 934)
Early Childhood Development Grant	80 872	47 323	33 549	84 620	80 872	3 748
Community Library Services Grant	162 410	175 910	(13 500)	174 860	162 410	12 450
Mass Participation and Sport Development Grant	46 532	51 210	(4 678)	48 318	46 532	1 786

Source: National Treasury, Provincial Database.

Table 19 – Northern Cape: Provincial revenue

Northern Cape	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**14 289 699**	**14 388 464**	**(98 765)**	**15 207 395**	**14 289 699**	**917 696**
Direct Conditional Grants	**4 542 328**	**4 416 779**	**125 549**	**4 511 648**	**4 542 328**	**(30 680)**
Education Infrastructure Grant	597 268	505 649	91 619	557 306	597 268	(39 962)
HIV and AIDS (Life Skills Education) Grant	5 849	5 794	55	6 113	5 849	264
Learners With Profound Intellectual Disabilities Grant	13 760	13 260	500	14 380	13 760	620
Maths, Science and Technology Grant	27 012	28 388	(1 376)	28 586	27 012	1 574
National School Nutrition Programme Grant	202 614	199 632	2 982	210 611	202 614	7 997
HIV, TB, Malaria and Community Outreach Grant	656 487	662 573	(6 086)	743 193	656 487	86 706
Health Facility Revitalisation Grant	409 404	409 404	-	441 494	409 404	32 090
National Health Insurance Grant	19 276		19 276	20 027	19 276	751
Statutory Human Resources, Training and Development Grant	125 465	114 847	10 618	130 906	125 465	5 441
National Tertiary Services Grant	402 404	403 671	(1 267)	420 303	402 404	17 899
Provincial Roads Maintenance Grant	1 230 754	1 106 570	124 184	1 092 326	1 230 754	(138 428)
Public Transport Operations Grant	60 524	60 524	-	63 854	60 524	3 330
Comprehensive Agricultural Support Programme Grant	122 944	130 149	(7 205)	130 812	122 944	7 868
Ilima/Letsema Projects Grant	62 615	67 698	(5 083)	70 030	62 615	7 415
Land Care Programme Grant	7 615	8 615	(1 000)	8 097	7 615	482
Human Settlements Development Grant	319 888	403 061	(83 173)	264 528	319 888	(55 360)
Informal Settlements Upgrading Partnership Grant	-	59 464	(59 464)	76 709	-	76 709
Title Deeds Restoration Grant	11 383	11 383	-	-	11 383	(11 383)
EPWP Grant	21 634	-	21 634	-	21 634	(21 634)
Social Sector EPWP Grant	22 638	-	22 638	-	22 638	(22 638)
Early Childhood Development Grant	24 085	15 152	8 933	21 601	24 085	(2 484)
Community Library Services Grant	167 162	178 062	(10 900)	178 659	167 162	11 497
Mass Participation and Sport Development Grant	46 532	51 210	(4 678)	48 318	46 532	1 786

Source: National Treasury, Provincial Database.

Table 20 – North West: Provincial revenue

North West	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**37 547 835**	**37 694 412**	**(146 577)**	**40 174 440**	**37 547 835**	**2 626 605**
Direct Conditional Grants	**7 743 453**	**7 842 096**	**(98 643)**	**7 905 497**	**7 743 453**	**162 044**
Education Infrastructure Grant	1 090 010	1 010 169	79 841	1 081 487	1 090 010	(8 523)
HIV and AIDS (Life Skills Education) Grant	16 791	19 791	(3 000)	17 505	16 791	714
Learners With Profound Intellectual Disabilities Grant	18 414	18 414	-	19 372	18 414	958
Maths, Science and Technology Grant	39 453	40 831	(1 378)	41 649	39 453	2 196
National School Nutrition Programme Grant	516 114	508 361	7 753	536 321	516 114	20 207
HIV, TB, Malaria and Community Outreach Grant	1 628 527	1 644 166	(15 639)	1 848 241	1 628 527	219 714
Health Facility Revitalisation Grant	597 158	538 398	58 760	580 598	597 158	(16 560)
National Health Insurance Grant	21 192		21 192	22 017	21 192	825
Statutory Human Resources, Training and Development Grant	192 723	171 712	21 011	200 986	192 723	8 263
National Tertiary Services Grant	326 867	320 614	6 253	341 329	326 867	14 462
Provincial Roads Maintenance Grant	1 059 163	952 293	106 870	940 035	1 059 163	(119 128)
Public Transport Operations Grant	124 415	124 415	-	131 258	124 415	6 843
Comprehensive Agricultural Support Programme Grant	174 271	179 609	(5 338)	186 109	174 271	11 838
Ilima/Letsema Projects Grant	67 324	74 468	(7 144)	75 297	67 324	7 973
Land Care Programme Grant	8 508	9 746	(1 238)	9 082	8 508	574
Human Settlements Development Grant	1 493 031	1 641 426	(148 395)	1 234 648	1 493 031	(258 383)
Informal Settlements Upgrading Partnership Grant	-	277 541	(277 541)	358 028	-	358 028
Title Deeds Restoration Grant	53 160	53 160	-	-	53 160	(53 160)
EPWP Grant	29 604	-	29 604	-	29 604	(29 604)
Social Sector EPWP Grant	29 246	-	29 246	-	29 246	(29 246)
Early Childhood Development Grant	76 740	58 899	17 841	86 945	76 740	10 205
Community Library Services Grant	138 733	152 233	(13 500)	150 709	138 733	11 976
Mass Participation and Sport Development Grant	46 532	51 210	(4 678)	48 318	46 532	1 786

Source: National Treasury, Provincial Database.

Table 21 – Western Cape: Provincial revenue

Western Cape	2020/21			2021/22		
R'000	2020 Budget	2019 Budget	Diff.	2021 Budget	2020 Budget	Diff.
Equitable Share	**55 207 631**	**55 277 754**	**(70 123)**	**59 276 313**	**55 207 631**	**4 068 682**
Direct Conditional Grants	**13 190 508**	**12 989 845**	**200 663**	**13 575 960**	**13 190 508**	**385 452**
Education Infrastructure Grant	1 091 162	1 031 186	59 976	1 082 712	1 091 162	(8 450)
HIV and AIDS (Life Skills Education) Grant	19 878	22 878	(3 000)	20 758	19 878	880
Learners With Profound Intellectual Disabilities Grant	28 499	29 499	(1 000)	30 176	28 499	1 677
Maths, Science and Technology Grant	35 479	36 856	(1 377)	37 474	35 479	1 995
National School Nutrition Programme Grant	412 548	406 388	6 160	428 739	412 548	16 191
HIV, TB, Malaria and Community Outreach Grant	1 867 472	1 885 931	(18 459)	2 120 970	1 867 472	253 498
Health Facility Revitalisation Grant	698 793	640 033	58 760	690 199	698 793	(8 594)
National Health Insurance Grant	19 480		19 480	20 239	19 480	759
Statutory Human Resources, Training and Development Grant	881 370	783 895	97 475	912 513	881 370	31 143
National Tertiary Services Grant	3 426 618	3 437 406	(10 788)	3 560 969	3 426 618	134 351
Provincial Roads Maintenance Grant	1 067 344	959 648	107 696	947 296	1 067 344	(120 048)
Public Transport Operations Grant	1 073 596	1 073 596	-	1 132 644	1 073 596	59 048
Comprehensive Agricultural Support Programme Grant	111 555	163 708	(52 153)	118 856	111 555	7 301
Ilima/Letsema Projects Grant	50 464	62 012	(11 548)	56 440	50 464	5 976
Land Care Programme Grant	5 045	5 545	(500)	5 451	5 045	406
Human Settlements Development Grant	1 907 551	1 729 455	178 096	1 577 433	1 907 551	(330 118)
Informal Settlements Upgrading Partnership Grant	-	354 596	(354 596)	457 429	-	457 429
Title Deeds Restoration Grant	67 952	67 952	-	-	67 952	(67 952)
EPWP Grant	25 983	-	25 983	-	25 983	(25 983)
Social Sector EPWP Grant	42 950	-	42 950	-	42 950	(42 950)
Early Childhood Development Grant	87 152	43 191	43 961	91 285	87 152	4 133
Community Library Services Grant	186 126	197 026	(10 900)	198 666	186 126	12 540
Mass Participation and Sport Development Grant	83 491	59 044	24 447	85 711	83 491	2 220

Source: National Treasury, Provincial Database.