

## **FOREWORD BY MINISTER TREVOR MANUEL**

The new system of fiscal transfers to municipalities announced in this document responds to two basic imperatives:

- i. National government's constitutional duty to introduce an "equitable share" of national revenue for local government for the 1998/99 fiscal year and thereafter;
- ii. The need to address the many problems intrinsic to the existing system of transfers - which was inherited from the apartheid years - and bring South Africa into line with international best practice in this area of fiscal practice.

In so doing, the new system achieves an additional goal which has been the subject of much debate in the local government circles recently: it delivers the national element of what is usually referred to as an "indigents policy". The primary virtue of the new system is that it provides the fiscal resources for each municipality to deliver a package of basic services to low income households at affordable cost. In the final instance, however, ensuring that these resources are effectively targeted at the low-income households in need of them is a local responsibility. Much work remains to be done by municipalities to ensure that this objective is achieved.

It should be stressed, too, that while the new system re-organises the existing fiscal flows in line with coherent policy goals and good institutional practice, it does not add significantly to them. In other words, this reorganisation needs to be understood in the context of the overall fiscal structure of local government. Fundamental to this is the fact that, unlike the provinces, the municipal sector raises over 90% of its income from own revenue sources. The system outlined here is focused only on the balance.

This system will thus not solve all of the financial problems that local government faces. However, it is one critical component of a new regulatory and institutional framework which will enable local government to operate sustainably and deliver effectively to the people which rely on it to do so. Other elements of this framework are currently being formulated by the Departments of Finance and Constitutional Development. Again, such frameworks cannot substitute for appropriate decision-making at the local level. It is national government's duty to ensure that a policy environment, which is conducive to effective and efficient local governance, emerges: it is the responsibilities of municipalities themselves to make sure that their areas are so governed.

Implementation of the new system has already begun. Time constraints dictate that for 1998/99, the actual allocations to local authorities will only be published at the beginning of their fiscal year. However, an indicative minimum amount that they will receive has already been announced to assist them with the budget process. In future years we intend to publish the allocations to local authorities as part of the national budget.

The process through which the new IGT system was formulated was an extremely thorough one. Extensive input was received from leading international and local experts in the field, and consultations were held with the Provinces and organised local government. Ultimately a high-quality product emerged which, while influenced by the international experience, is based both on this government's specific policy goals and due consideration of local conditions. My thanks to all who participated in this process, and specifically to those in the Department of Finance who managed it.

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## Appendix

"Investigation into the flow of funds to local government, 1995/96, 1996/97 and 1997/98" compiled by Department of Finance, July 1997.

## 1. **INTRODUCTION**

### 1.1 **Objectives**

This document announces and describes the new system of intergovernmental transfers (IGTs) from the central fiscus to municipalities. In addition to detailing the system itself, the document contains analysis of the existing situation, discussion of the policy thinking underlying the proposals, an outline of the main implications for the national budget, and an overview of the institutional arrangements for implementation. The Appendix to the document provides detailed data on fiscal flows to local government for the period 1995/6 through 1997/98.

### 1.2 **FFC proposals**

The new system was designed in the context of the proposals released during 1997 by the Financial and Fiscal Commission (FFC.) In many areas the FFC's thinking (as expressed in their document, *"Local Government in a System of Intergovernmental Fiscal Relations in South Africa"*) has informed the system described below. The more important instances of this may be highlighted:

- This document adopts the FFC's approach towards the Constitution in respect of conditional and unconditional transfers and local government's entitlement to an "equitable share" of national revenue (i.e. section 214);
- The initial steps for determining the quantum of the "equitable share" (i.e. the calculation of the "vertical split") are the same;
- With certain exceptions, the policy thinking underlying the new transfer types is similar to that of the FFC. Thus, for example, the FFC argues that any vertical fiscal gap suffered by local authorities will have to be addressed via nationally-collected revenues rather than from Provincial revenues. The new system shares this foundation. In addition, the basic point of departure for the FFC's proposals in respect of operating transfers is that transfers should be directed at providing basic services to poorer households and that transfers should only be made available to those communities that are unable to afford these services. The main transfer programme introduced here is derived from a similar premise;
- Finally - and perhaps most significantly - the actual impact on municipal budgets is likely to be similar to the impacts implicit to the FFC approach. All local authorities will benefit from a system which is transparent and predictable. More specifically, however, in both cases the chief beneficiaries in direct monetary terms are likely to be tax-poorer jurisdictions and those with larger, poorer

populations.

There are some differences, of course. The FFC document operates at a fairly high level of abstraction. This document is more concrete and is driven by a keener concern for the practical implications of introducing any new arrangement. For example, the concrete impact of introducing a new system on the actual budgets of local authorities has been modelled and is discussed below. The FFC document does not enter into this sort of exercise. Divergences between the FFC and Department of Finance (DoF) approaches result as much from this factor as from any other.

### **1.3 Qualifications**

Three important points should be stressed at the outset. First, the new system deals with transfers to cover *operating* or recurrent costs only. Capital transfers have recently been rationalised and restructured into the CMIP programme which is well designed and appears to be taking off effectively. There would be little benefit, and significant costs, attached to attempting any fundamental restructuring of this programme at this point.

Second, while the existing operating grant flows are in urgent need of restructuring, it is not possible to introduce all the necessary changes at once. This document thus recommends a phasing in of the new system and a phasing out of the old one over a four-year (for urban municipalities) to seven year (for rural municipalities) period.

Finally, the new system was formulated in the context of a critical imponderable. In parallel with the policy work around intergovernmental transfers, the Local Government White Paper was drafted. It is possible that certain institutional changes to the local government system - which would have fundamental implications for some of the measures discussed below - might emerge from the legislation which emanates from this document. For example, if the "unicity" becomes the exclusive organising principle for local government in metropolitan areas, substructure-to-substructure transfers would become redundant: any intra-metropolitan fiscal redistribution would proceed, implicitly, via the metropolitan budget. The policy formulation process had to take the existing institutional framework as given, but it should be recognised that this situation could change substantially. For the most part, however, such changes would not materially affect the proposals made below.

## **2. PROBLEM STATEMENT**

The need to formulate a new system for central-local IGTs arose from two basic imperatives:

- i. Constitutional. Obligations deriving from the Constitution required that the vertical division of revenue between national, provincial and local government - and specifically the "equitable share" of national revenue to which local government is entitled - be determined by budget-day (i.e. 11 March) 1998;
- ii. Current problems. The existing system has a profoundly negative impact on the financial performance of local government and is a key contributing factor to the difficulties in which a growing number of municipalities find themselves. It is critical that the system for dividing the transfers between municipalities (i.e. the horizontal split) be re-organised.

### **2.1 Constitutional obligations**

Section 214 of the Constitution requires Parliament to pass an Act providing for:

- "(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government
- (b) the determination of each province's equitable share of the provincial share of that revenue; and
- © any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made."

This legislation - namely the Division of Revenue Bill, published on 11 March - had to take into account a variety of factors including the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them; the fiscal capacity and efficiency of the provinces and municipalities; developmental and other needs of provinces, local government and municipalities; obligations of the provinces and municipalities in terms of national legislation and the desirability of stable and predictable allocations of revenue shares.

Section 227 (2) requires that additional revenue raised by provinces or municipalities may not be deducted from their share of revenue raised nationally, or from other allocations made to them out of national revenue. Equally, there is no obligation for national government to compensate provinces or municipalities that do not raise revenue commensurate with their fiscal capacity and tax base.

## 2.2 The existing situation

### 2.2.1 *Background*

In the mid-1980s, the tricameral system ushered in a period of precarious local government financing, the legacy of which persists to the present. Black local authorities were never financially viable and their introduction lowered, rather than increased, the propensity of communities to pay for services. Central and provincial governments were obliged to make emergency grants and loans to local authorities to keep basic services going. In some cases, systems of provision collapsed altogether, obliging emergency provision from neighbouring local authorities, parastatals and occasionally the private sector. An ad hoc and inequitable system of transfers evolved, which remains to be reformed in terms of uniform policy principles.

The emphasis since 1994 has been on institutional transformation and the Masakhane programme. The Masakhane programme has been hampered by the lack of a clear policy on state support for the consumption of municipal services by the poor. Should it be possible to subsidise most or all of the cost of basic services to poor households, it might be possible to free these households from the burden of paying for them, and local authorities from the administrative costs of having to collect large numbers of very small payments. The problem of non-payment would then be confined to a subset of households consuming higher levels of service. The case for requiring payment would then be clearer and more defensible, and sanctions easier to apply against defaulters.

### 2.2.2 *Transfers for current expenditure*

At present funds for operating expenditure flow to local authorities through a number of channels. These may be classified as follows:

**Agency payments from provinces** for health (clinics and ambulances), social services (community centres) and transport (maintenance of national and provincial roads);

**Subsidies to formerly white local authorities** for fire brigades, library services and disaster management;

**Transfers and implicit subsidies for municipal services** in the form of intergovernmental grants (IGGs), direct (cash) and indirect (provincial expenditure on salaries etc. in towns still administered by the provinces) support of towns established under Proclamation R 293, local authority loan service, support for sport and recreation, and other transfers;

**Implicit transfers** from the Department of Water Affairs and Forestry (where it runs water and sanitation services for local communities.) In terms of this programme, the Department provides and finances water and sanitation services in rural areas where formal local government does not exist. These funds are mostly used for refurbishment and operation and maintenance of existing infrastructure.

Agency payments have existed for many years, and are merely payments for services rendered. Subsidies to formerly white local authorities are also of long standing, but they represent a skewed allocation of support for local authority functions. The transfers for municipal services represent more recent emergency support for formerly black local authorities. The implicit transfers from the Department of Water Affairs should be regarded as transitional in the light of government policy favouring establishment of local authorities in parts of the country. The aggregate flow of rationalisable funds (subsidies to former white municipalities, transfers for municipal services and other implicit transfers) has been ascertained at R2 641 million for 1997/98 (see Appendix, ***Investigation into the Flow of Funds to Local Government (July 1997)***) and R2 805 million for 1998/99.

Currently, most transfers to local authorities go via the provincial governments. As the Appendix shows, provinces do not use the same criteria for allocation to local authorities. In sum, the chief problems with the existing system are as follows:

- not all local authorities are treated equitably. While attempts have been made in some provinces to move towards more equitable "poverty based" formulae for allocating grants, these efforts are neither comprehensive nor uniform. Allocations are often made on arbitrary grounds and the existing system is predominantly unfair;
- it is also characterised by perverse incentives. To some - though varying - degrees all provinces allocate grants on the basis of "emergency" support, or the historical pattern of expenditure. The existing system thus tends to reward poor financial performance;
- because the grant system is neither uniform nor formula-based, it is open to manipulation;
- grant flows are ad hoc and unpredictable. This undermines effective budgeting

and constrains municipalities' borrowing capacity;

- the lack of a uniform approach to intra-metropolitan (i.e. substructure-to-substructure) transfers has led to a situation where intra-metro equalisation has tended to become an ad hoc and arbitrary occurrence which is not necessarily conducive to optimising economic activity or social equity.

### 2.2.3 *Capital transfers*

The system of capital transfers to local authorities has been largely transformed as a result of the RDP. Over the past two years the bulk of capital transfers have flowed through the Municipal Infrastructure Programme, the Extended Municipal Infrastructure Programme, and Bulk and Connector Infrastructure Grant programme. These have recently been restructured into the Consolidated Municipal Infrastructure Programme, which supports the government objective of extending services to the poor, especially through infrastructural support for the housing programme. These programmes do not need substantial further change in the short run, though a transition to formula funding of capital transfers may be appropriate in the longer term.

Further detail concerning these transfer flows is contained in the Appendix.

### 2.2.4 *The evolution of funding flows 1995/96-1997/98*

Table 1 summarises information drawn from the Appendix regarding current and capital transfers to local government by function for the three years under review. The figures for 1997/98 are budgeted amounts; those for the previous two years are actual flows. Table 2 summarises aggregate current and capital flows to each province.<sup>1</sup>

Salient features of these tables are as follows:

- Capital account transfers have risen very rapidly, doubling from 1995/96 to 1996/97, tripling again from 1996/97 to 1997/98. This reflects the phasing in of

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<sup>1</sup> The flows of funds shown in the two tables do not include:

- \* agency payments
- \* implicit subsidies to local authorities when ESCOM writes off bad debt
- \* property taxes paid by the Department of Public Works to local authorities
- \* the portion of the fuel levy allocated to district/service councils, but paid by them to the Department of Transport to support commuter transport
- \* the municipal infrastructure component of housing subsidies
- \* Special Integrated Presidential Projects.



the MIP, EMIP and BCIG transfers and increased activity by the Department of Water Affairs. By 1997/98 capital account transfers were nearly equal to current account transfers;

- Current account transfers increased by 31.6% between 1995/96 and 1996/97, but declined by 9% between 1996/97 and 1997/98. In all years, intergovernmental grants and grants to R 293 towns have accounted for the bulk of these transfers;
- The proportions received by each province of capital account transfers have fluctuated considerably over the three years. In part, this reflects the introduction of a new and expanded system of capital account transfers:



- There have been changes in the distribution of current account transfers over the three years. Net gainers in proportional terms have been KwaZulu/Natal, Western Cape, Northern Province and Eastern Cape. Net losers have been Gauteng and Mpumalanga. No clear trend can be detected for the other three provinces.

### **2.3 Political and institutional factors relevant to restructuring**

A two-level system of local government has emerged. In metropolitan areas, there are transitional metropolitan councils (TMCs), each sharing jurisdiction with a number of municipalities or substructures. In other areas, there are district councils containing municipalities and rural local authorities. As a consequence of local negotiation of the structure of interim local government, the distribution of powers and functions between these levels is not uniform across the country. Greater uniformity will be introduced in the future; policy in this connection is being formulated through the Local Government White Paper and subsequent legislation. For the sake of completeness it is assumed throughout this document that the two-level structure of local government will remain, notwithstanding the possibility of the introduction of a "unicity" model in metropolitan areas following the publication of the White Paper. The existence of two levels adds complexity to transfer design, but does not fundamentally affect the system.

### **3. PRINCIPLES OF TRANSFER DESIGN**

#### **3.1 Policy objectives**

The constitution does not specify the aims of a system of transfers to local government in detail. Policy goals have to be considered as well. Four central objectives have been established as a basis for restructuring the system of central-local transfers:

##### Equity

Intergovernmental transfers should promote the constitutional and governmental goal of ensuring that all South Africans have access to basic services. In effect, this means the provision of subsidised basic services to the poor. Transfers should also treat jurisdictions fairly and according to a uniform set of criteria.

##### Efficiency

A new transfer system should promote allocative efficiency by ensuring that inter-jurisdictional fiscal competition is an effective check on fiscal performance. This, in turn, requires that, where possible and appropriate, uniform equalisation measures should be introduced to ensure that local tax rates vary because of variations in local service costs rather because of disparities in tax bases.

The character and scope of such equalisation measures needs to take into account the potential impact of equalisation on the economies and the competitive position of jurisdictions with richer tax bases. Full equalisation, or equalisation between areas with very unequal tax bases might entail potentially crippling fiscal outflows from richer areas. In addition, because factors of production are mobile not just across municipal borders, but across national ones, total cross-country equalisation might have a deleterious effect on the country's ability to attract international investment.

##### Spillover effects

The provision of some public goods generates negative or positive externalities which may spill over into neighbouring jurisdictions. Such spillovers generate costs for one jurisdiction, but benefits for more than one, so that any given local authorities by itself could be expected to undersupply them. RSC levies were originally devised for allocation to metropolitan and district councils to finance projects whose benefits spilled over across municipal boundaries. However, they have been diverted to other purposes over most of the period during which they have been levied. A new transfer system needs to introduce a way of funding projects which have strong spillover effects.

### Facilitating democracy

Local authorities have certain fundamental administrative, functional and political responsibilities to their residents. In order to perform their basic roles, they require a minimum level of institutional and physical infrastructure.

A new transfer system needs to enable local authorities to build or acquire this capacity. However, there is a certain minimum efficient scale for local authorities, and transfers should not be made available to entities falling below this level. In such cases, rationalisation and administrative restructuring are necessary.

### **3.2 Additional policy considerations**

For any new system of intergovernmental transfers to achieve the above policy goals, it needs to incorporate certain basic principles:

- Rationality. The level and distribution of transfers must be grounded in well articulated arguments showing how they promote goals such as equity, economic growth and efficiency, and so on;
- Unintended consequences should be limited. In particular, the new system of transfers should create no perverse incentives;
- Transfers should be predictable. Without predictability, budgeting and borrowing becomes difficult and expensive;
- Transfers should promote accountability. Without accountability on the part of recipient governments, valuable national resources will be wasted, through inefficiency or corruption;
- Transfers need to be politically acceptable and support institution-building at the local level
- Transfers should be as simple and transparent as possible.

Two additional policy positions are implicit to the proposals made below:

- i. The current system of RSC levies (payroll and turnover taxes) is not economically efficient nor conducive to labour intensive economic growth. In the long term consideration should be given to replacing the levies with a more appropriate

form of taxation. In the short term, however, the system needs to remain intact;

- ii. The bulk of the redistributive effort intrinsic to the equity objective stated above should be funded by the central fiscus. Three factors underlie this position. First, for reasons of economic fairness, economic efficiency and sound fiscal management, national equity standards should be financed by national taxation on all citizens and enforced uniformly across the country. This is particularly true in a country such as South Africa where the overall fiscal structure is highly centralised. Second, it is not constitutionally possible for central government to reallocate locally raised revenues from one Metropolitan or District Council jurisdiction to another - any such lateral transfers would need to be entered into voluntarily. Third, the potential impact of any alternative needs also to be considered. Initial modelling conducted by the Department of Finance indicates that a general programme of urban-rural equalisation would impose crippling fiscal burdens on cities. It should be stressed that none of the above precludes any intra-local authority redistribution within specific jurisdictions. Municipalities may pursue such policies via their normal budgeting processes.

## 4. **PROPOSALS**

This section provides an overview of the new system of intergovernmental transfers and simulates some of its implications. Sections 4.1, 4.2 and 4.3 deal with the individual components of the new system: in essence they translate the above principles into specific types of transfer. These are then packaged and aggregated. For the most part, then, these sections deal with the quantum and character of the “horizontal” split. The issue of the “vertical” split (the total allocation to local government) is given specific attention in 4.4.

### 4.1 **Transfer programmes and their objectives**

A menu of four distinct transfer programmes may be outlined. These programmes are as follows:

A ***municipal basic services (S) transfer*** (equity objective), to ensure that poor residents in all local government jurisdictions receive access to basic municipal services.

A ***tax base equalisation (T) transfer*** (equalisation objective), to promote the efficient allocation of households, capital investment and labour within the major economic centres of South Africa. By promoting equalisation of the tax base distortions and inefficiencies in the location of households, capital investment and labour associated with the unbalanced pattern of past development can be countered. Such equalisation will also have strong equity effects. Further, a within-metropolitan formula-driven equalisation programme will bring greater regularity and predictability to the system of metropolitan public finance. Tax base equalisation transfers impose no burden on central government; they are simply formula-driven transfers between substructures within the same metropolitan council jurisdiction.<sup>2</sup> If the current two-tier metropolitan government model is altered in favour of a “unicity” approach, this transfer type will obviously become redundant. The T transfer will therefore only be introduced if and when the existing two-tier system is confirmed in policy and law.

A ***municipal institutions (I) transfer*** (facilitating democracy objective), for those jurisdictions currently lacking the administrative capacity to raise their own revenue and/or lacking the basic infrastructure necessary to function as local authorities. This

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<sup>2</sup>An equalisation programme within District Council areas has also been considered, but is not supported at this point. First, it has not been possible to model the full impact of such a programme with available data. Initial indications, however, are that it would probably pose an unsustainable fiscal burden on towns and villages. Second, the efficiency benefits which underlie the T transfer programme would not really arise in DC areas.

transfer funds a minimal level of resources to provide and maintain basic facilities for the operation of local government (e.g. community centres and an office for elected officials).

A **matching (M) transfer** (spillover objective), to assist communities to provide essential infrastructure for services which create significant positive economic spillovers for residents of other communities.

#### 4.2 Transfer formulae and the transfer package

Section 4.1 sets out the menu of transfer types. This section proposes a package suitable to contemporary South African circumstances.

##### 4.2.1 *Basic services (S) transfer*

This transfer supports the ability of local authorities to supply services to the poor. The basic approach involves estimating the number of people in poverty (household income < R800 per month in 1998 prices) and the current annual cost of providing basic services per person. The two magnitudes are multiplied together and then multiplied by a further parameter which defines the proportion of need to be met by the S transfer. Except in certain circumstances (defined below), S transfers will flow directly to “primary” local authorities (i.e. Category A and B municipalities.)

In formal terms, S transfers are calculated as follows:

$$S_i = \alpha L H_i$$

where

- $S_i$  is the services transfer to local authority  $i$
- $L$  is the annual per capita services transfer
- $H_i$  is the population living in households with incomes less than R800 per month in 1998
- $\alpha$  is a coverage parameter with  $0 \leq \alpha \leq 1$

$L$  is set at R230 for 1998, a figure derived from detailed cost studies conducted by the DBSA. This corresponds to an amount of R86 per month per household, if average household size is taken to be 4.5.<sup>3</sup>

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<sup>3</sup> The possibility of adding a further factor, reflecting mean income per capita (or some other measure of relative wealth) within a local authority jurisdiction, to the determination of the S transfer has been considered. Such a factor would be equal to one for very low levels of per capita income and would then drop as incomes rise. The effect of such a factor would be to force a redistributive effort on local rates and services payers in local authorities where incomes were relatively high. Two factors mitigate against going this route. First, as argued earlier, it is generally better, from a public finance perspective, to redistribute from central than



#### 4.2.2 Equalisation (T) transfers

Only within-metro equalisation are envisaged with no contribution from central government. Transfers from metropolitan areas to other municipalities appear to have constitutional problems and are economically undesirable. Intra-metropolitan transfers, on the other hand, avoid an inefficient chase of high tax bases. As a long-term measure, it is also desirable that some uniformity in property rates be negotiated between the four metropolitan councils in Gauteng, since mobility between them is likely to be high.

In formal terms, T transfers are calculated as follows:

$$T_i = \theta t (B^* - B_i) P_i$$

where

- $T_i$  is the transfer to substructure I
- $t$  is the average rate in the Rand across the metropolitan authority
- $B^*$  is the per capita rates base across the metropolitan authority
- $B_i$  is the per capita rates base in the substructure I
- $\theta$  is the degree of equalisation with  $0 \leq \theta \leq 1$
- $P_i$  is the population of substructure I

#### 4.2.3 Municipal institution (I) transfers

These transfers will flow to individual substructures with rates and general services income beneath a threshold level necessary to support democratic local government. The transfer will be the difference between the threshold level and rates/general service charges income. They will not be given to local authorities with populations below a certain cut-off level; these local authorities should be amalgamated with others or, where this is not possible, district councils should exercise their functions on an agency basis. Since the sizes of population within the jurisdiction of substructures vary greatly, three

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from local government. Second, the practical difficulties associated with deriving a reasonable measure of relative wealth at the local level appear to be insurmountable at this point.

levels of I transfer are proposed. In the case of rural local authorities, I transfers are urgently needed. S transfers can be phased in gradually as services are developed.

I transfers are calculated as follows:

$$I_i = \max\{0, I_n - R_i\}$$

where

$I_i$  is the institutional transfer to local authority I

and  $n=0$  if  $P_i < 2000$   
 $n=1$  if  $2000 \leq P_i < 20\,000$   
 $n=2$  if  $20\,000 \leq P_i < 100\,000$   
 $n=3$  if  $P_i \geq 100\,000$

and  $I_0 = 0$   
 $I_1 = R\,400\,000$   
 $I_2 = R\,800\,000$   
 $I_3 = R\,1\,600\,000$

and  $R_i$  is the *normative* rates income of local authority I, given by the formula

$$R_i = 0.05 * (y_i - 180) * P_i$$

where  $y_i$  is the income per capita in local authority I, and  $P_i$  is the population in local authority I.<sup>4</sup>

Using actual rates income in the formula would create a perverse incentive for some local authorities to make no effort in collecting rates at all. Use of a normative rates income ties the size of the I transfer to mean personal incomes in the local authority jurisdiction. This has two consequences:

- Other things (including population size) being equal, a jurisdiction with a poor population receives a bigger transfer than a jurisdiction with a richer population;
- Local authorities have no scope to manipulate I transfer flows in their favour.

#### 4.2.4 Spillover (M) transfers

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<sup>4</sup>At R180/capita/month 75% of the population in poverty is covered by this transfer mechanism. This figure - like the 0.05 value which determines the rate at which the institutional grant is phased out as local authorities get richer - is a policy variable which may be altered.

The need for M transfers in South Africa is much reduced by the existence of metropolitan and district councils which can undertake spillover projects which no individual municipality has the incentive to undertake. These projects should in general be undertaken on a cost recovery basis, with individual municipalities charged proportionally to use. However, M transfers to metropolitan and district councils may still be justified on two grounds: to establish a core staff capability at the metropolitan and district level and to finance capital projects proportionally to their use by the poor, from whom no cost recovery is appropriate.

A rather complex reform is needed in this area. The establishment and turnover taxes which yield RSC levies are inefficient forms of tax; it would be better for the country as a whole if they were replaced by some other form of tax which would raise the same quantum of revenue. If this tax were to accrue centrally, it could be passed back to local authorities as an M transfer without any net claim on existing central government revenue sources.

Moreover, the M transfers could be allocated on a uniform nation-wide basis, instead of being determined by local revenue as at present.

In the short term, however, it is more feasible for the RSC levy system to remain intact and be ascribed to an M transfer. In this case, a number of immediate improvements to the existing system are required. In particular, measures need to be taken to ensure that these funds are redirected at capital projects, and any upward trend in the levy rates needs to be strictly curtailed.

In the light of current transfers to local authorities, an additional measure is necessary in the short and medium term:

#### *4.2.5 Phasing out of current ("historical" or "discretionary") transfers*

Discretionary transfers (implicit and explicit) cannot be terminated abruptly without causing local fiscal disruption. The discretionary transfers need to be frozen and then reduced proportionally every year as the formula-based transfers are phased in. The reduction will happen at a rate to keep total transfers to local authorities constant in real per capita terms.

### **4.3 Institutional arrangements**

Implementation of the restructured intergovernmental transfer scheme will require activity in the following broad areas:

### Policy formulation, assessment and review

Ultimately, the Minister of Finance is responsible to Cabinet for defining local government's "equitable share" and the criteria on which it should be allocated. The Intergovernmental Fiscal Relations Act defines a process through which this is decided. The Department of Finance will therefore need to play the primary role in overall policy formulation and review, supported - as is current practice - by the Department of Constitutional Development, and in consultation with organised local government and other stakeholders. Specific policy decisions regarding the individual transfers which comprise the new system will have to be taken at the national level.

### Administration and management

In order to secure the key objectives of certainty, predictability and rationality, the transfers will flow directly to primary (i.e. Category A and B) local authorities. Directing transfers at second-tier local authorities (metropolitan and district councils) and allowing them to divide and distribute transfers among the primary local authorities will not allow these goals to be realised and would be self-defeating.

If, as is the case in certain limited circumstances, the second-tier local authority rather than the primary local authority is responsible for providing basic services, or where the primary local authority does not have the capacity to receive and utilize funds, transfers will flow to the spending tier, but will be allocated for expenditure within the boundaries of the primary tier.

At least to begin with, the transfers will flow via the Budget Vote of the Department of Constitutional Development. With the exception of the short-term conditional grants for R293 Townships and Transitional purposes, there is little reason to route transfers via the Provinces as has been done in the past: there is no constitutional reason to do so; the formula-basis for the transfers removes Provincial discretion over funding amounts; and, from an administrative perspective, creating nine Provincial systems would be much more wasteful than creating one system at national level.

The Department of Constitutional Development will be responsible for implementing, administering and managing the new system and is establishing a unit for this purpose.

### Managing budgetary implications

The new transfer system will have significant impacts on the budgets of certain central government Departments and the Provinces. This will need to be managed carefully.

The Department of Finance will take responsibility for this area, working in close consultation with DCD.

#### Monitoring, auditing, dispute resolution and reporting

It will be necessary to carefully and rigorously monitor and audit the implementation and performance of the new system. Annual reporting on allocations and related issues will also be necessary. All these functions will be performed by the unit established within DCD to manage the new system. The FFC will, naturally, play an independent oversight role in these areas.

#### Targeting

The issue of targeting - of ensuring that poor households actually receive the benefit of the transfers intended to subsidise them - is an important one. It is not, however, constitutional or practical for central government to play any overriding role here. End-user targeting will remain the responsibility of municipalities, although the Department of Constitutional Development is establishing policy capacity to assist them with this.

### **4.4 The overall system: budgetary impacts and consequences**

The budgetary impact of the new system has been ascertained through a simulation exercise based on the model which has been built to allocate funds according to the new formulae. Given present data uncertainties the precision of the initial estimates is not great. Nonetheless, the basic magnitudes may be established. Accuracy will improve as the model is refined.

#### *4.4.1 Formula-based transfers from central government*

##### S transfers

From the Development Bank's ***Modelling of Financing of Municipal Services in Twenty Towns (1995)***, it can be established that a monthly expenditure of R 44 per household per month is sufficient to purchase a package of basic services. In the modelling exercise, a sum of over 80% higher (R86) is used. This translates into an annual expenditure of R230 per person. Given a population of 11.2 million people in poverty in 1998 (i.e. household income < R800/month), the total cost of S transfers comes to R 2 572 million. This would not all be provided in the first years of the new system. The

model sets alpha at 0.6 for urban areas and 0.1 for rural areas in the first year of operation, and increases it at the rate of 0.1 per year in both cases until it reaches 1 (in year 5 for urban areas and year 7 for rural areas.) The different starting points reflect different levels of present actual servicing of the poor in urban and rural areas.

#### I transfers

On the assumption that I transfers would not be paid to local authorities with less than 2000 people, and that I transfers would suffice to bring rates and site charges income up to the following amounts:

| <b>Population range</b> | <b>Maximum I transfer</b> |
|-------------------------|---------------------------|
| 1 000 - 19 999          | R 400 000                 |
| 20 000 - 99 999         | R 800 000                 |
| 100 000 and above       | R 1 600 000,              |

I transfers would come to R 233 million. The I transfers will be introduced in toto from year 1.

#### *4.4.2 Other transfers from central government*

As the formula-based transfers are phased in, discretionary transfers will be phased out. These are as follows:

#### R293 subsidies

For 1998/99, the R293 subsidy will be paid to the Provinces as a conditional grant to fund the staff (and other) costs of providing services in R293 townships. It is expected that these staff will be transferred to local authorities in the course of this year. From 1999/2000, the R293 amount will be transferred directly to local government in line with the 4-7 year phase-in.

#### Transitional fund

In response to strong representations from the Provinces, for 1998/99 a sum of R181m will be paid to the Provinces as a conditional grant for expenditure on transitional and emergency costs as an interim measure. From 1999/2000, this sum will be integrated into the equitable share and transferred directly to local government in line with the 4-7 year phase-in of the formula-based approach.

#### DWAF operating subsidies

The operating subsidies spent by DWAF on water schemes in rural areas will continue to be spent directly by that Department for 1998/99 and possibly for 1999/2000. From 2000/01, these funds will be integrated into the equitable share and allocated to municipalities directly in line with the 4-7 year phase-in of the formula-based approach.

#### DLA operating subsidies

The operating subsidies to be allocated by Department of Land Affairs to municipalities for the establishment of Land Development Objectives will be allocated in this manner for FYs 1998/99 and 2000/01. Thereafter, these funds will be integrated into the equitable share and allocated to municipalities directly in line with the 4-7 year phase-in of the formula-based approach.

#### *4.4.3 Funding for organised local government*

It has been agreed with SALGA that funding to cover 50% of their annual budget will be taken as a top-slice off local government's equitable share.

#### *4.4.4 Summary: phase-in of the new system*

Table 3 and Figure 1 summarise the intergovernmental operating transfers to local authorities for 1998/99.

Figure 2 summarises the position once the new system has been fully phased in (i.e. in year 7, or 2004/5, in 1998/99 rands). The nominal figures will be substantially higher.





On the simplifying assumption of an unchanging population, the projected transfer requirement over the next 10 years is set out in real terms (using 1998/99 rands) in Table 4. The evolution of the transfer components is displayed in real terms (also using 1998/99 rands) in Figure 3.

It may be inferred from these figures that in 1998/99 every local authority will receive at least 70% of the funding it received from provincial and national government in 1997/8 (some, of course, will receive more than their 1997/98 allocation.) The phase-in process has been calibrated so as to ensure that no "losing" local authority is unable to adapt to the change in its financial position as a result of the introduction of the new system.

An increasing population would, other things being equal, require a factor reflecting population increase to be added into the transfer requirement. Provided that the economy grows faster than population growth (presently believed to be 2% p.a.), resources will be sufficient to finance the increment.

Table 4 shows a Year 1 transfer requirement of R2 805 million which represents the 1998/99 pool of reallocable funds. Because of the model assumptions, this transfer requirement stays constant over the ten-year period (in nominal terms the allocations will increase substantially. An indication of this is given in Table 6).

Table 5 estimates the number of winners and losers among local authorities in the transition from 1998/99 transfers to the new system of S and I transfers once alpha reaches one in both cases. Almost without exception, rural local authorities win from the new arrangements. Local authorities within the jurisdiction of metropolitan councils lose from the new arrangements with the exception of Lekoa-Vaal. The picture is more mixed when it comes to other urban local authorities; 381 win while 124 lose. The mix of winners and losers varies substantially between provinces. It should be emphasised that these results are even more tentative than those of Table 4 and depend on imperfect records; nonetheless, they show the general trend.

#### *4.4.6 The equitable share and the vertical split*

The Intergovernmental Fiscal Relations Act (No 97 of 1997) establishes a process for considering intergovernmental budget issues and determining the division of national revenue between the three spheres of government. The quantum of national revenue flowing to local government needs to be understood in the context of the overall fiscal structure of local government in South Africa. Of relevance here is the fact that local government raises over 90% of its revenue from local sources, particularly property taxes and service charges. Total intergovernmental transfers are required to fund less than 10% of the aggregate annual municipal budget.



In accordance with the Constitution, “equitable share” transfers cannot be conditional. In defining the quantum of the “equitable share”, however, the full picture of transfers to local authorities - conditional and unconditional, capital and operating - needs to be appreciated. Clearly, what counts as an “equitable share” will depend, in part, on what else local government is receiving from the national fiscus for both operating and capital expenditure.

The “equitable share” is defined here as the sum of unconditional transfers (formula-based and historical/discretionary) flowing to local government. Particularly over the first three years of the phase-in of the new system this sum will expand - both in real terms and expressed as a proportion of national revenue - in inverse proportion to the conditional operating grants flowing from the budgets of national Departments and the Provinces to local government. As the conditional grants decrease, so the equitable share will expand. The overall sum flowing to local government will remain roughly constant in real terms however. In other words, the equitable share expands at no net loss to the central fiscus.

Table 6 tentatively summarises the aggregate situation based on preliminary projections over the next three years. It should be stressed that phasing in the equitable share will require ongoing negotiation around budgetary issues. This table is included for indicative purposes only. It should also be stressed that local government’s “equitable share” of national revenue should at no time be confused with the total share of national revenue flowing to local government. Capital grants such as CMIP funds have been omitted from Table 6. Total transfers to local government for 1998/99 (including capital and operating grants and agency payments, but excluding rollovers) will come to approximately R5,2 bn. This is equal to around 3.2% of national revenue available to be shared after debt service and other provisions.

**Table 6: Equitable share projections (nominal amounts) 1998/99 - 2000/01**

|                 | 1998/99 |                    | 1999/00 |                    | 2000/01 |                    |
|-----------------|---------|--------------------|---------|--------------------|---------|--------------------|
|                 | Rm      | % national revenue | Rm      | % national revenue | Rm      | % national revenue |
| Equitable share | 1 024   | 0.7                | 2 316   | 1.4                | 3 051   | 1.7                |
| Other transfers | 1 781   | 1.2                | 518     | 0.3                | –       | –                  |

|              |       |     |       |     |       |     |
|--------------|-------|-----|-------|-----|-------|-----|
| <b>TOTAL</b> | 2 805 | 1.9 | 2 834 | 1.7 | 3 051 | 1.7 |
|--------------|-------|-----|-------|-----|-------|-----|

#### 4.4.7 *Within metropolitan transfers*

While these transfers are regulated by national government, they do not represent any claim on the national fiscus. Per capita rateable value of property (site only or site plus improvements, depending on the system in use in the metropolitan area) is equalised; and for this purpose, the formula given in section 4.1 above is used.

#### 4.4.8 *District/Metro Council (RSC) levies*

The budgeted income from Metro and District Council levies for 1996/97 was R2 596 798 200. Relative to the total intergovernmental transfers, this is clearly a substantial sum. Of this, the Metro Councils accounted for R1 493 096 668 or 57%. Given the purposes of the M transfers which these levies are intended to fund, this distribution is roughly appropriate.

### 4.5 **Data requirements**

The basic data requirements for the new system are:

- The size of the population within each local authority jurisdiction;
- The size of the population with household incomes of less than R 800 per month;
- Average income per capita in each jurisdiction;
- The rates base in each metropolitan substructure (only if the T transfer is becomes necessary.)

Sufficient data exists to work up feasible estimates of these variables. However, more accurate information would obviously improve these estimates. These variables should be estimated regularly by the Financial and Fiscal Commission. Until mid-1998, it is unlikely that the methods and data used in the simulations for this paper can be much improved on. Once the results of the 1996 Population Census are released in GIS format, more accurate estimates of the demographic and income magnitudes can be made.

## 5. **CONCLUSION**

The main implications of the system proposed above may be summarised as follows:

- It will introduce greater consistency and predictability into the revenues of local authorities, thus improving their capacity to budget properly and borrow at reasonable rates;
- The intergovernmental transfers will provide local authorities, particularly the poorer ones, with resources to deliver basic services to poor households and to enable them to build an administrative infrastructure. As Table 5 demonstrates, those that benefit from the proposed system of intergovernmental transfers are generally the rural and smaller urban local authorities. It is these local authorities that are in the worst financial position and are most in need of support;
- On the other hand, the impact of the new transfer system on the budgets of the “losers” will not be crippling. Initial model outputs indicate that while the shifts are not entirely insignificant, they are hardly likely to pose an overwhelming problem for those local authorities. It should not be forgotten that these changes will be phased in fairly gently, and should give losing local authorities sufficient time to make the necessary adjustments.

In general terms, then, the system proposed here will make significant progress towards achieving the policy objectives outlined in Section 3. This is its cardinal virtue. It is also a relatively simple system which is practical and can feasibly be implemented within current institutional and data constraints. Which is not to imply that implementation will be effortless. A major change to the intergovernmental fiscal system is being introduced. Sustained attention to detail and extensive co-operation between national, provincial and local government will be required to ensure that implementation proceeds smoothly.

**Table 1 - Current and capital transfers by function, 1995/96 - 1997/98**

(Thousands of Rand)

| Function  | 1995/96          |               |                |               | 1996/97          |               |                  |               | 1997/98          |               |                  |               |
|---|------------------|---------------|----------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
|   | Current          | Percent       | Capital        | Percent       | Current          | Percent       | Capital          | Percent       | Current          | Percent       | Capital          | Percent       |
| <b>Subsidies to former white municipalities</b> |                  |               |                |               |                  |               |                  |               |                  |               |                  |               |
| Fire brigade                                    | 32,997           | 1.5%          | 13,444         | 1.7%          | 49,348           | 1.7%          | 21,896           | 1.9%          | 46,214           | 1.7%          | 29,316           | 0.9%          |
| Library services                                | 23,478           | 1.1%          | 9,287          | 1.2%          | 43,137           | 1.5%          | 4,235            | 0.4%          | 33,725           | 1.3%          | 18,365           | 0.5%          |
| Disaster management                             | 2,590            | 0.1%          | -              | -             | 5,128            | 0.2%          | -                | -             | 4,661            | 0.2%          | -                | -             |
| <b>Subtotal</b>                                 | <b>59,065</b>    | <b>2.7%</b>   | <b>22,731</b>  | <b>2.9%</b>   | <b>97,613</b>    | <b>3.4%</b>   | <b>26,131</b>    | <b>2.3%</b>   | <b>84,600</b>    | <b>3.2%</b>   | <b>47,681</b>    | <b>1.4%</b>   |
| <b>Transfers to municipalities</b>              |                  |               |                |               |                  |               |                  |               |                  |               |                  |               |
| MIP   | -                | -             | 125,800        | 16.1%         | -                | -             | 301,200          | 26.7%         | -                | -             | 450,500          | 13.3%         |
| EMIP  | -                | -             | 500            | 0.1%          | -                | -             | 168,600          | 14.9%         | -                | -             | 431,400          | 12.7%         |
| CMIP  | -                | -             | -              | -             | -                | -             | -                | -             | -                | -             | 500,000          | 14.7%         |
| BCIG  | -                | -             | -              | -             | -                | -             | 70,598           | 6.3%          | -                | -             | 426,273          | 12.5%         |
| Intergovernmental grants                        | 830,220          | 37.6%         | -              | -             | 806,090          | 28.1%         | -                | -             | 903,420          | 34.2%         | -                | -             |
| R 293 towns                                     | 559,591          | 25.4%         | 85,970         | 11.0%         | 863,782          | 30.2%         | 79,901           | 7.1%          | 882,654          | 33.4%         | 68,443           | 2.0%          |
| Service of loans                                | 190,336          | 8.6%          | -              | -             | 214,462          | 7.5%          | -                | -             | 27,689           | 1.0%          | -                | -             |
| Sport and recreation                            | 747              | 0.0%          | 526            | 0.1%          | 14,576           | 0.5%          | 7,559            | 0.7%          | 19,016           | 0.7%          | 14,752           | 0.4%          |
| Debt redemption                                 | 129,000          | 5.8%          | -              | -             | 129,000          | -             | -                | -             | 129,000          | -             | -                | -             |
| Other   | 323,389          | 14.7%         | 47,402         | 6.1%          | 242,154          | 8.5%          | 154,122          | 13.6%         | 102,410          | 3.9%          | 30,652           | 0.9%          |
| <b>Subtotal</b>                                 | <b>2,033,283</b> | <b>92.1%</b>  | <b>260,198</b> | <b>33.4%</b>  | <b>2,270,064</b> | <b>79.2%</b>  | <b>781,980</b>   | <b>69.2%</b>  | <b>2,064,189</b> | <b>78.2%</b>  | <b>1,922,020</b> | <b>56.5%</b>  |
| <b>Implicit national transfers</b>              |                  |               |                |               |                  |               |                  |               |                  |               |                  |               |
| Department of Water Affairs                     | 114,489          | 5.2%          | 496,289        | 63.7%         | 496,969          | 17.3%         | 321,288          | 28.4%         | 492,525          | 18.6%         | 1,429,212        | 42.0%         |
| <b>Subtotal</b>                                 | <b>114,489</b>   | <b>5.2%</b>   | <b>496,289</b> | <b>63.7%</b>  | <b>496,969</b>   | <b>17.3%</b>  | <b>321,288</b>   | <b>28.4%</b>  | <b>492,525</b>   | <b>18.6%</b>  | <b>1,429,212</b> | <b>42.0%</b>  |
| <b>TOTAL</b>                                    | <b>2,206,837</b> | <b>100.0%</b> | <b>779,218</b> | <b>100.0%</b> | <b>2,864,646</b> | <b>100.0%</b> | <b>1,129,399</b> | <b>100.0%</b> | <b>2,641,314</b> | <b>100.0%</b> | <b>3,398,913</b> | <b>100.0%</b> |

Note: The flows for 1995/96 and 1996/97 are actual amounts; the flows for 1997/98 are budgeted amounts. All figures are nominal.

The R293 subsidy amounts include all cash transfers and direct expenditures by provinces on administering the towns.

Source: Department of Finance, Investigation into the flow of funds to local government, July 1997

**Table 2 - Current and capital transfers by province, 1995/96 - 1997/98**

(Thousands of Rand)

| Province                       | 1995/96          |               |                |               | 1996/97          |               |                  |               | 1997/98          |               |                  |               |
|--------------------------------|------------------|---------------|----------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
|                                | Current          | Percent       | Capital        | Percent       | Current          | Percent       | Capital          | Percent       | Current          | Percent       | Capital          | Percent       |
| Gauteng                        | 427,227          | 19.5%         | 8,004          | 2.5%          | 357,416          | 14.0%         | 77,490           | 9.2%          | 210,410          | 8.3%          | 211,737          | 14.4%         |
| KwaZulu/Natal                  | 595,201          | 30.3%         | 1,589          | 0.5%          | 796,275          | 35.6%         | 108,992          | 12.9%         | 694,986          | 34.8%         | 322,974          | 22.0%         |
| Western Cape                   | 171,632          | 7.3%          | 35,607         | 11.0%         | 210,039          | 8.1%          | 119,365          | 14.2%         | 211,320          | 9.2%          | 104,293          | 7.1%          |
| Free State                     | 154,030          | 7.1%          | 93,282         | 28.8%         | 182,208          | 7.5%          | 116,284          | 13.8%         | 112,767          | 4.9%          | 130,750          | 8.9%          |
| Northern Province              | 99,266           | 5.1%          | 55,074         | 17.0%         | 151,942          | 6.8%          | 118,766          | 14.1%         | 189,623          | 9.5%          | 152,102          | 10.3%         |
| Mpumalanga                     | 116,665          | 5.9%          | 25,071         | 7.7%          | 96,239           | 4.3%          | 46,352           | 5.5%          | 108,253          | 5.4%          | 112,751          | 7.7%          |
| Eastern Cape                   | 353,017          | 16.1%         | 20,104         | 6.2%          | 394,505          | 16.0%         | 98,658           | 11.7%         | 421,194          | 19.2%         | 166,300          | 11.3%         |
| North West                     | 136,139          | 6.8%          | 76,443         | 23.6%         | 140,611          | 6.1%          | 108,053          | 12.8%         | 142,455          | 7.0%          | 185,200          | 12.6%         |
| Northern Cape                  | 39,171           | 1.8%          | 8,434          | 2.6%          | 38,442           | 1.6%          | 48,796           | 5.8%          | 37,781           | 1.7%          | 83,594           | 5.7%          |
| <b>Subtotal</b>                | <b>2,092,348</b> | <b>100.0%</b> | <b>323,608</b> | <b>100.0%</b> | <b>2,367,677</b> | <b>100.0%</b> | <b>842,756</b>   | <b>100.0%</b> | <b>2,128,789</b> | <b>100.0%</b> | <b>1,469,701</b> | <b>100.0%</b> |
| <b>Unallocated by province</b> |                  |               |                |               |                  |               |                  |               |                  |               |                  |               |
| Disaster fund                  | -                | -             | -              | -             | -                | -             | -                | -             | 20,000           | -             | -                | -             |
| CMIP + EMIP                    | -                | -             | 500            | -             | -                | -             | -                | -             | -                | -             | 500,000          | -             |
| Department of Water Affairs    | 114,489          | -             | 455,110        | -             | 496,969          | -             | 286,643          | -             | 492,525          | -             | 1,429,212        | -             |
| <b>Subtotal</b>                | <b>114,489</b>   | -             | <b>455,610</b> | -             | <b>496,969</b>   | -             | <b>286,643</b>   | -             | <b>512,525</b>   | -             | <b>1,929,212</b> | -             |
| <b>Total</b>                   | <b>2,206,837</b> | -             | <b>779,218</b> | -             | <b>2,864,646</b> | -             | <b>1,129,399</b> | -             | <b>2,641,314</b> | -             | <b>3,398,913</b> | -             |

Note: The flows for 1995/96 and 1996/97 are actual amounts; the flows for 1997/98 are budgeted amounts. All figures are nominal.

Source: Department of Finance, Investigation into the flow of funds to local government, July 1997

**TABLE 3 OPERATING TRANSFERS TO LOCAL GOVERNMENT FOR 1997/98 AND 1998/99**

| R million                |                          | Eastern Cape | Free State | Gauteng   | Kwa/Zulu Natal | Mpumalanga | Northern Cape | Northern Province | North West | Western Cape | Prov Total | National Total | Local Gov Share | Channel                                 |
|--------------------------|--------------------------|--------------|------------|-----------|----------------|------------|---------------|-------------------|------------|--------------|------------|----------------|-----------------|---|
| <b>CURRENT TRANSFERS</b> |                          |              |            |           |                |            |               |                   |            |              |            |                |                 |   |
| <b>98/99</b>             | <b>Trad Subs.</b>        | <b>1</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>0</b>       | <b>0</b>        | <b>DCD - Direct to local government</b> |
| 97/98                    | Trad Subs.               | 1            | 31         | 8         | 8              | 21         | 3             | 1                 | 1          | 2            | 8          | 85             | 0               | 85                                      |
| <b>98/99</b>             | <b>IGG</b>               | <b>2</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>1,024</b>   | <b>1,024</b>    | <b>DCD - Direct to local government</b> |
| 97/98                    | IGG                      | 2            | 125        | 66        | 156            | 151        | 69            | 22                | 74         | 68           | 173        | 903            | 0               | 903                                     |
| <b>98/99</b>             | <b>Other alloc</b>       | <b>3</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>0</b>       | <b>0</b>        | <b>DCD - Direct to local government</b> |
| 97/98                    | Other alloc              | 3            | 107        | 0         | 2              | 0          | 6             | 12                | 0          | 0            | 2          | 129            | 0               | 129                                     |
| <b>98/99</b>             | <b>Debt redemption</b>   | <b>4</b>     | <b>37</b>  | <b>14</b> | <b>44</b>      | <b>-</b>   | <b>-</b>      | <b>3</b>          | <b>-</b>   | <b>3</b>     | <b>28</b>  | <b>0</b>       | <b>129</b>      | <b>DCD - Direct to local government</b> |
| 97/98                    | Debt redemption          | 4            | 37         | 14        | 44             | -          | -             | 3                 | -          | 3            | 28         | 0              | 129             | 129                                     |
| <b>98/99</b>             | <b>R293 towns</b>        | <b>5</b>     | <b>130</b> | <b>27</b> | <b>0</b>       | <b>564</b> | <b>32</b>     | <b>0</b>          | <b>123</b> | <b>74</b>    | <b>0</b>   | <b>951</b>     | <b>0</b>        | <b>951</b>                              |
| 97/98                    | R293 towns               | 5            | 121        | 25        | 0              | 523        | 30            | 0                 | 114        | 69           | 0          | 882            | 0               | 882                                     |
| <b>98/99</b>             | <b>DWAF</b>              | <b>6</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>494</b>     | <b>494</b>      | <b>DWAF</b>                             |
| 97/98                    | DWAF                     | 6            | -          | -         | -              | -          | -             | -                 | -          | -            | 0          | 493            | 493             | 493                                     |
| <b>98/99</b>             | <b>DLA</b>               | <b>7</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>26</b>      | <b>26</b>       | <b>DLA - Direct to local government</b> |
| 97/98                    | DLA                      | 7            | -          | -         | -              | -          | -             | -                 | -          | -            | 0          | 0              | 0               | 0                                       |
| <b>98/99</b>             | <b>Disaster fund</b>     | <b>8</b>     | <b>-</b>   | <b>-</b>  | <b>-</b>       | <b>-</b>   | <b>-</b>      | <b>-</b>          | <b>-</b>   | <b>-</b>     | <b>0</b>   | <b>0</b>       | <b>0</b>        | <b>DCD</b>                              |
| 97/98                    | Disaster fund            | 8            | -          | -         | -              | -          | -             | -                 | -          | -            | 20         | 0              | 0               | 20                                      |
| <b>98/99</b>             | <b>Transitional fund</b> | <b>9</b>     | <b>43</b>  | <b>12</b> | <b>27</b>      | <b>28</b>  | <b>13</b>     | <b>6</b>          | <b>12</b>  | <b>11</b>    | <b>30</b>  | <b>181</b>     | <b>0</b>        | <b>181</b>                              |
| 97/98                    | fund                     | 9            | -          | -         | -              | -          | -             | -                 | -          | -            | 0          | 0              | 0               | 0                                       |
| <b>SUBTOTAL</b>          | <b>98/99</b>             |              |            |           |                |            |               |                   |            |              |            | <b>1,132</b>   | <b>1,673</b>    | <b>2,805</b>                            |
|                          | 97/98                    |              |            |           |                |            |               |                   |            |              |            | 2,020          | 622             | 2,641                                   |

The table provides a detailed outline of the operating transfers to local authorities (by province where applicable) for financial years 1997/98 and 1998/99.

The 1997/98 figures are derived from the detailed report "Investigation into the Flow of Funds to Local Government, 1995/96, 1996/97 and 1997/98" (see Appendix)

The 1998/99 figures are derived from a combination of the 1997/98 figures (inflated by non-interest expenditure), the 1998/99 Budgets, and the outputs for the formula for the S and I grants.

**Footnote: Current transfers**

1. "Traditional" subsidies - formerly to "white" local authorities as for fire brigades, library services, and disaster management. From 1998/99 amount will be part of the equitable share.
2. Intergovernmental Grants - formerly to "black" local authorities. From 1998/99 amount will be part of the equitable share, including funds to SALGA.
3. Other allocations - formerly for settlement assistance, land tenure rights, resorts etc. From 1998/99 amount will be part of the equitable share.
4. The R129 million budgeted in 1998/99 is for the settlement of local authority debt and is the result of the Mandela/de Klerk agreement in which national government is responsible for the payment of this debt. In terms of the agreement, the total amount will be paid over a three year period ending in 1998/99. The amount of R129 million is the balance.
5. R293 - "implicit" subsidy provided by Province for expenditure on municipal staff etc. From 1999/2000 onwards part of the equitable share. Staff to be transferred 1998/99.
6. DWAF - Implicit subsidy provided by DWAF for expenditure on water services in rural areas (municipal), but spent directly - not transferred to municipalities. From 2000/2001 onwards part of equitable share.
7. DLA - Department of Land Affairs - Funds to assist rural municipalities with implementation of IDP process. From 2000/2001 onwards part of the equitable share.
8. Disaster Fund - Fund administered by DCD to assist local authorities in the event of disasters.
9. Transitional Fund - Conditional grants to Provinces for local authorities to lessen transitional shocks and provide limited flexibility. From 1999/2000 part of the equitable share.



**Table 4 - TRANSFER PROJECTION MODEL**

1998/99 Rand million

|   | YEAR        |             |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | 1           | 2           | 3           | 4           | 5           | 6           | 7           | 8           | 9           | 10          |
| S grant: rural  | 206.0       | 515.1       | 824.2       | 1,133.2     | 1,442.3     | 1,751.4     | 2,060.4     | 2,060.4     | 2,060.4     | 2,060.4     |
| S grant: urban  | 307.0       | 358.1       | 409.3       | 460.4       | 511.6       | 511.6       | 511.6       | 511.6       | 511.6       | 511.6       |
| S grant :total  | 513.0       | 873.2       | 1,233.5     | 1,593.7     | 1,953.9     | 2,263.0     | 2,572.0     | 2,572.0     | 2,572.0     | 2,572.0     |
| I grant   | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       | 233.0       |
| Discretionary transfers:total                         | 2,059.0     | 1,698.8     | 1,338.6     | 978.4       | 618.1       | 309.1       | 0.0         | 0.0         | 0.0         | 0.0         |
| Discretionary transfers: subsidies & transfers        | 1593.0      | -           | -           | -           | -           | -           | -           | -           | -           | -           |
| *Discretionary transfers: implicit national transfers | 494         | -           | -           | -           | -           | -           | -           | -           | -           | -           |
| Discretionary transfers % of 98/99 transfers          | 73%         | 61%         | 48%         | 35%         | 22%         | 11%         | 0%          | 0%          | 0%          | 0%          |
| <b>Total</b>  | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> | <b>2805</b> |
| Check: 1998/99 transfers                              | 2805        | 2805        | 2805        | 2805        | 2805        | 2805        | 2805        | 2805        | 2805        | 2805        |

\* The transfer projection model makes the simplifying assumption that the implicit national (DWAf) transfers are eliminated in year 2 and reallocated in total via the new formula based system. Obviously in practice these transfers - like the other discretionary transfers will need to be phased out over a 5 - 7 year period. The model can be adjusted to allow for this.

**Table 5 - WINNERS AND LOSERS**

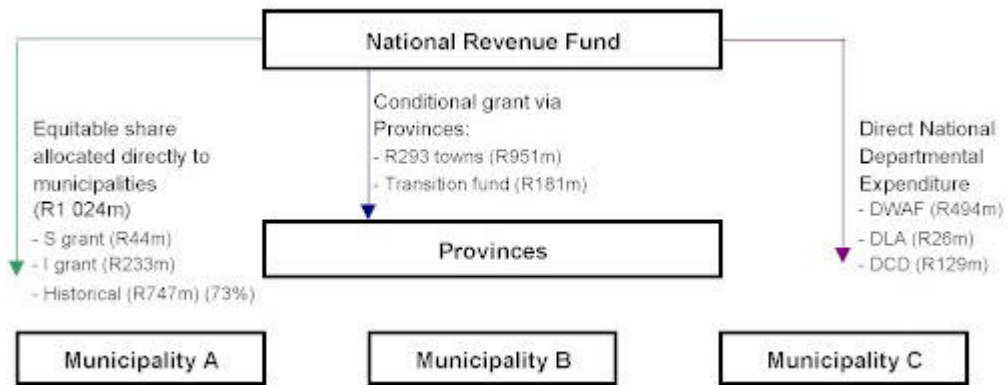
|                      | Eastern Cape | Free State | Gauteng | KwaZulu/Natal | Mpumalanga | Northern Cape | Northern Prov | North West | Western Cape | Total |
|----------------------|--------------|------------|---------|---------------|------------|---------------|---------------|------------|--------------|-------|
| Rural winners        | 83           | 15         | 2       | 7             | 24         | 42            | 36            | 21         | 27           | 257   |
| Rural losers         | 0            | 0          | 0       | 0             | 0          | 0             | 0             | 2          | 0            | 2     |
| Urban winners        | 84           | 55         | 2       | 42            | 30         | 50            | 7             | 21         | 90           | 381   |
| Urban losers         | 10           | 25         | 12      | 19            | 24         | 14            | 6             | 9          | 5            | 124   |
| Metropolitan winners | -            | -          | 1       | 0             | -          | -             | -             | -          | 0            | 1     |
| Metropolitan losers  | -            | -          | 4       | 1             | -          | -             | -             | -          | 1            | 6     |

**TABLE 6 EQUITABLE SHARE PROJECTIONS 1998/99 - 2000/2001**

|                            | <i>1998/99</i><br><i>Rm</i> | <i>% of national</i><br><i>revenue</i> | <i>1999/00</i><br><i>Rm</i> | <i>% of national</i><br><i>revenue</i> | <i>2000/01</i><br><i>Rm</i> | <i>% of national</i><br><i>revenue</i> |
|----------------------------|-----------------------------|--|-----------------------------|--|-----------------------------|--|
| <b>OPERATING TRANSFERS</b> |                             |  |                             |  |                             |  |
| EQUITABLE SHARE            | 1,024                       | 0.7%                                   | 2,316                       | 1.4%                                   | 3,051                       | 1.7%                                   |
| OTHER TRANSFERS            | 1,781                       | 1.2%                                   | 518                         | 0.3%                                   | -                           |  |

FIGURES 1 TO 3

Figure 1: Operating transfers to municipalities 1998/99



Total operating transfers 1998/99 (excluding agency payments) R2 805m

Figure 2: Operating transfers to Local Government - End State (by 2004/5)  
(1998/99 Rands)

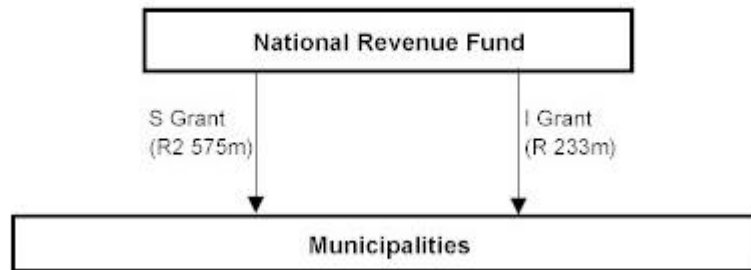
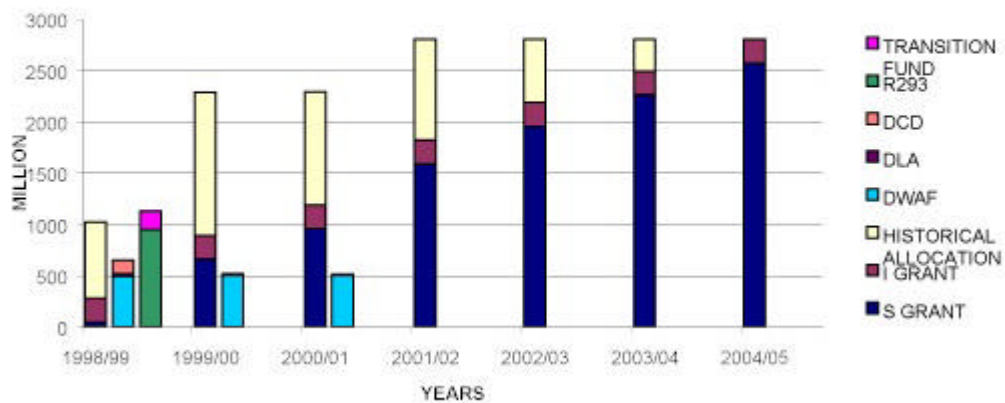


Figure 3: Evolution of transfers to local government 1998/99 - 2004/5  
(1998/99 Rands)



## **APPENDIX**

**Investigation into the flow of funds to local  
government, 1995/96,1996/97 and 1997/98, compiled  
by Department of Finance, 1997**

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## **INVESTIGATION INTO FISCAL TRANSFERS TO LOCAL GOVERNMENT**

### **1. INTRODUCTION**

The purpose of this investigation is to identify and quantify the flow of funds from national and provincial government to municipalities. The investigation attempts to provide a comprehensive picture of intergovernmental transfers to municipalities for the 1995/96, 1996/97 and 1997/98 financial years, and to obtain an understanding of the manner in which the main subsidy amounts have been allocated.

### **2. BACKGROUND**

The funds allocated from national government to provincial government are relatively easy to identify as these amounts are published and debated in Parliament. The funds allocated directly to municipalities by national government are also transparent in much the same way as the flow of funds between national and provincial government. In terms of the Interim as well as the final Constitution there are no obstacles to earmarking funds for local government. However, difficulties arise with trying to obtain basic and reliable information on the amount of funds utilized at local government level provided for in provincial budgets as well as the actual flow of funds from provincial governments to municipalities.

The reason for this is, amongst others, the new budget system designed to comply with the Interim Constitution of the Republic of South Africa 1993 and the Constitution of the Republic of South Africa 1996. In terms of the new budget system funds to be allocated to provincial governments are divided into the so-called "investigated" and "non-investigated" functions by the Department of State Expenditure after consultation with the relevant role-players. The funds defined as "investigated" functions are funds identified for specific functions and must be utilized for this purpose. These functions include Health, Welfare, Education etc. All other funds made available to provincial governments by national government are defined as "non-investigated" functions. These funds are made available to Provincial governments in a lump sum without any conditions for the utilization thereof. It is the responsibility of the Provincial government to determine priorities regarding the utilization of these funds taking into consideration their needs. The "non-investigated" funds provided to Provincial governments also includes funds to be provided to municipalities for certain functions they (municipalities) perform as agents of the Provincial government as well as for financial assistance to municipalities by Provincial governments. The allocation of funds to municipalities from this amount depends on the Provincial government concerned.

In some areas of the Republic of South Africa there is an extreme administrative capacity problem. In these areas services are rendered by other bodies such as the central government or district /services councils. This investigation includes these funding flows.

### **3. TRANSFERS TO LOCAL GOVERNMENT FOR CURRENT EXPENDITURE**

#### **3.1. Agency payments**

- Health
- Social Services
- Transport

Agency functions are functions rendered by the municipalities for provincial governments. The provincial government remains responsible for the function but the municipality actually renders the service and receives funds from the provincial government for this purpose.

Payments for health are mostly for primary health care rendered by clinics in municipal areas as well as for emergency services (ambulance services.)

Payment for social services mostly represents payments for the establishment of multi purpose community centers at municipal level.

Payments for transport are made to district/services councils and municipalities for the maintenance of national roads. In some provinces the district/services councils maintain national roads and in others this remains the responsibility of the province, but transfers are made to municipalities for sections of the national road that fall within their area of jurisdiction. The municipality then maintains the national road.

#### **3.2 Subsidies to former white local authorities**

- Fire brigade
- Library services
- Disaster management

These subsidies were paid to historically white municipalities to assist them in rendering fire brigade services, library services and develop a disaster management system. A 40% subsidy for fire brigade expenditure is theoretically supposed to be paid, but due to inadequate funds the actual subsidy is less. These subsidies are paid to municipalities for specific functions.

#### **3.3 Transfers for municipal services**

- Intergovernmental Grants (IGG`s)
- R293 town subsidies
- Service of Loans
- Sport & Recreation
- Other - transfers such as funds from provincial governments budgets to local government.

Intergovernmental grants were paid to former black municipalities to financially assist them rendering services. These municipalities were not economically viable, as they did not have adequate own revenue sources. Intergovernmental grants are utilized for operating expenditure by local government.

In the former dispensation transfers from the independent states' and self governing territories' national budgets were utilised to finance certain local governments. These transfers were used for the administration of the municipalities, investment in infrastructure as well as for the rendering of municipal services to the community. During the course of this investigation, it became apparent that it is extremely difficult to establish precisely what the figures for R293 towns are and in particular to obtain a breakdown of the utilization of these funds. **The amounts indicated for R293 towns include both explicit transfers from Provinces to municipalities now responsible for R293 towns, and funds expended by Provinces directly on the administration of those towns where Provinces retain these responsibilities.**

The following Provinces indicated that they did not provide for any allocations for R293 towns:

- Gauteng
- Western Cape
- Northern Cape

The Reeve Projects in Soweto and Port Elizabeth were financed by way of loans during the former dispensation. The repayment of these loans is the responsibility of the central government, and up to 1996/97 funds were provided on the provincial budgets for this purpose. Some provinces are responsible for the repayment of DBSA loans utilized at local government level.

Transfers for sport and recreation facilities by other spheres of government to municipalities are mostly a once-off payment to assist municipalities in the maintenance or upgrading of these facilities.

"Other" subsidies represent payments made to municipalities that do not fall into one of the above categories. It includes transfers from provinces own funds for municipalities, for subsidies for the operating and maintenance of resorts, upgrading of land tenure rights, settlement assistance etc.



### **3.4 Implicit national transfers**

These are expenditures which do not take the form of explicit monetary transfers, but which nevertheless subsidize the provision of municipal services.

These include:

Dept of Water Affairs - Community Water Supply and Sanitation Programme

Funds allocated by the Department of Water Affairs and Forestry for the Community Water Supply and Sanitation Programme for refurbishment and maintenance of water supply in rural areas. More detail is supplied on p.8.

Escom – local government debt since 1991/92

Represents bad debt provision for ESCOMs' local government clients. More detail is supplied on p. 9.

## **4. TRANSFERS TO LOCAL GOVERNMENT FOR CAPITAL EXPENDITURE**

The subsidies and transfers for the funding of capital projects have mostly been committed as part of the following programmes;

Municipal Infrastructure Programme (MIP)  
Extension to Municipal Infrastructure Programme (EMIP)  
Consolidated Municipal Infrastructure Programme (CMIP)  
Bulk and Connector Infrastructure Grants (BCIG)  
Rural Administrative Infrastructure Development.(RAID)  
Dept of Water Affairs – capital subsidy for infrastructure for the supply of water via the Community Supply Water Programme.

**(For more detail on these programmes refer Appendix C)**

## **5. RESULTS**

The detailed results of the investigation are given in tables 1-9 and attached figures at the end of this document.

### **5.1 Total expenditure**

In total the following amounts (capital and current) were made available to subsidise local government for the years under investigation. These amounts **exclude** agency payments made to local governments as well as the bad debt provision made by

ESCOM to cater for possible default by their clients in this sphere of government (as these amounts cannot really be classified as subsidies or grants.):

| <b>1995/96</b> | <b>1996/97</b> | <b>1997/98</b> |
|----------------|----------------|----------------|
| <b>R`000</b>   | <b>R`000</b>   | <b>R`000</b>   |
| 2,986,055      | 3,994,045      | 6,040,227      |

Total payments and budgeted allocations for current (operating) expenditure:

| <b>1995/96</b> | <b>1996/97</b> | <b>1997/98</b> |
|----------------|----------------|----------------|
| <b>R`000</b>   | <b>R`000</b>   | <b>R`000</b>   |
| 2,206,837      | 2,864,646      | 2,641,314      |

Total payments and budgeted allocations for capital expenditure:

| <b>1995/96</b> | <b>1996/97</b> | <b>1997/98</b> |
|----------------|----------------|----------------|
| <b>R`000</b>   | <b>R`000</b>   | <b>R`000</b>   |
| 779,218        | 1,129,399      | 3,398,913      |

While subsidies for current expenditure have increased by an average annual nominal rate of 6.5% during the period, the assistance for capital expenditure has been increasing at an average annual rate of 63.4% and has overtaken transfers for current expenditure in nominal terms during the 1998/99 financial year. The trend is clear. The national and provincial governments are prioritising subsidies towards capital expenditure which is more productive and conducive to the building of physical and social infrastructure in preference to current expenditure which from a fiscal and economic perspective tends to be less productive.

When the totals are viewed again, but with the agency payments and the bad debt provisions of ESCOM included this time the figures change to the following:

| 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|------------------|------------------|------------------|
| 4,238,210        | 5,391,186        | 7,289,887        |

Total payments for current (operating) expenditure:

| 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|------------------|------------------|------------------|
| 3,380,552        | 4,179,488        | 3,813,185        |

Total payments for capital expenditure:

| 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|------------------|------------------|------------------|
| 857,658          | 1,211,698        | 3,476,702        |

## 5.2 Transfers for Current Expenditure

### 5.2.1 Transfers for current expenditure

#### Payments for agency functions

The following amounts were made available to local government for agency functions performed on behalf of Provincial administrations. Note that these do not constitute subsidies, but payment for services rendered:

|                 | 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|-----------------|------------------|------------------|------------------|
| Health          | 762,848          | 844,906          | 871,809          |
| Social Services | 1,000            | 400              | 400              |
| Transport       | 191,867          | 228,536          | 200,662          |
| <b>TOTAL</b>    | <b>955,715</b>   | <b>1,073,842</b> | <b>1,072,871</b> |

#### **“Traditional” subsidies**

These subsidies include subsidies that have traditionally been paid to white local government by other spheres of government to assist them financially e.g. fire brigade, library subsidies and for disaster management. The following amounts were made available to local government for this purpose:

|                     | <b>1995/96</b> | <b>1996/97</b> | <b>1997/98</b> |
|---------------------|----------------|----------------|----------------|
|                     | <b>R`000</b>   | <b>R`000</b>   | <b>R`000</b>   |
| Fire brigade        | 32,997         | 49,348         | 46,214         |
| Library services    | 23,478         | 43,137         | 33,725         |
| Disaster management | 2,590          | 5,128          | 4,661          |
| <b>TOTAL</b>        | <b>59,065</b>  | <b>97,613</b>  | <b>84,600</b>  |

#### **Transfers for municipal services**

These transfers are for the subsidisation of services in formerly disadvantaged areas.

|                    | <b>1995/96</b>   | <b>1996/97</b>   | <b>1997/98</b>   |
|--------------------|------------------|------------------|------------------|
|                    | <b>R`000</b>     | <b>R`000</b>     | <b>R`000</b>     |
| IGG`s              | 830,220          | 806,090          | 903,420          |
| R 293 towns        | 559,591          | 863,782          | 882,654          |
| Service of loans   | 190,336          | 214,462          | 27,689           |
| Sport & recreation | 747              | 14,576           | 19,016           |
| Other              | 323,389          | 242,154          | 82,410           |
| Debt redemption    | 129,000          | 129,000          | 129,000          |
| <b>TOTAL</b>       | <b>2,033,283</b> | <b>2,270,064</b> | <b>2,044,189</b> |

### Implicit national transfers to local government

These are amounts that do not appear on the budget of any municipality, but which nevertheless effectively subsidise the provision of municipal services. A fuller description is given below the figures.

|               | 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|---------------|------------------|------------------|------------------|
| DWAF          | 114,489          | 496,969          | 492,525          |
| ESCOM         | 218,000          | 241,000          | 99,000           |
| Disaster fund |                  |                  | 20,000           |
| <b>TOTAL</b>  | <b>332,489</b>   | <b>737,969</b>   | <b>611,525</b>   |

### Community Water Supply and Sanitation Scheme

In terms of this programme, the DWAF provides water and sanitation services in rural areas where local government suffers from a lack of administrative capacity. In total an amount of **R 497.0** million was budgeted for this purpose for 1996/97 and **R 492.5** million for 1997/98. A fuller description of the CWSP is given in Appendix C.

### Municipal debt to ESCOM

Up to May 1997 an amount of **R 1,634** billion in arrears debt is owed to ESCOM by local government for the provision of electricity. The figure represents the total debt in arrears by local government to ESCOM since approximately 1991/92 for the supply of electricity and includes independent municipalities as well as those municipalities in which the supply of electricity has been taken over by ESCOM. Although this does not represent a direct subsidy to local government it can be defined as financial assistance provided to local government by ESCOM as, to all intents and purposes, this debt is irrecoverable.

## 5.3 Capital transfers

### 5.3.1 Payments for agency functions

Capital transfers to cover agency functions have been as follows:

|                 | 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|-----------------|------------------|------------------|------------------|
| Health          | 5,073            | 5,649            | 15,616           |
| Social Services | 1,050            | 17,450           | 13,200           |
| Transport       | 72,317           | 59,200           | 48,973           |
| <b>TOTAL</b>    | <b>78,440</b>    | <b>82,299</b>    | <b>77,789</b>    |

### 5.3.2 "Traditional" subsidies

|                     | 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|---------------------|------------------|------------------|------------------|
| Fire brigade        | 13,444           | 21,896           | 29,316           |
| Library services    | 9,287            | 4,235            | 18,365           |
| Disaster management | 0                | 0                | 0                |
| <b>TOTAL</b>        | <b>22,731</b>    | <b>26,131</b>    | <b>47,681</b>    |

### 5.3.3 "Transfers for municipal service"

The following payments are made to municipalities by other spheres of government to assist them in rendering services to the community. For a full description of these programmes see Appendix C.

|                        | 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98/<br>R`000 |
|------------------------|------------------|------------------|-------------------|
| MIP                    | 125,800          | 301,200          | 450,500           |
| EMIP                   | 500              | 168,600          | 431,400           |
| CMIP                   | 0                | 0                | 500,000           |
| BCIG                   | 0                | 70,598           | 426,273           |
| DWAF – capital subsidy | 496,289          | 321,288          | 1,429,212         |
| IGG`s                  | 0                | 0                | 0                 |
| R 293 Towns            | 85,970           | 79,901           | 68,443            |
| Service of loans       | 0                | 0                | 0                 |
| Sport & recreation     | 526              | 7,559            | 14,752            |
| Other                  | 47,402           | 154,122          | 30,652            |
| <b>TOTAL</b>           | <b>756,487</b>   | <b>1,103,268</b> | <b>3,351,232</b>  |

The figures for the R293 towns include both the explicit and implicit costs for provincial governments performing municipal functions in these localities. The DWAF figure, too, is an implicit subsidy where expenditure is incurred by a national department on funding municipal services. The transfer is however a holdover from the previous dispensation which is bound to be phased out as alternative arrangements are made in this regard. The reason for the dramatic increase in the figure under "other" during the 1996/97 financial year is because of the once off R 121m allocated to the Rural Administrative Infrastructure Programme

## 5.4 Explicit Transfers not Incorporated into Tables

The following transfers have not been incorporated into the tables for a variety of reasons. Property tax, for instance is not a subsidy. Programmes like the Special Integrated Residential Projects are seen as allocations that will fall outside the normal course of subsidies to local authorities from other spheres of government.

### 5.4.1. Property Tax

The Department of Public Works is responsible for the payment of an amount to municipalities as property tax for properties registered in the name of the government that is situated within the area of jurisdiction of municipalities. These funds are **not** included the tables.

The following amounts were paid to municipalities as property tax by central government:

| 1995/96<br>R`000 | 1996/97<br>R`000 | 1997/98<br>R`000 |
|------------------|------------------|------------------|
| 345,000          | 362,270          | 447,055          |

### 5.4.2 Fuel Levy

Funds are raised by way of a 1c per liter levy on petrol sales and are then distributed to District/Services Councils. The distribution of the amount is based on the petrol sales within each District/Services Council. These funds are not used by third sphere government but are paid over to the Department of Transport. The reason for this is that it was envisaged that commuter transport would become a function of District Services Councils. However, the function was not allocated to them and as the function is still the responsibility of the Department of Transport. The funds are paid to DoT by District Services Councils in terms of existing legislation. For this reason the fuel levy paid to local government by central government it is not considered a subsidy but must be seen as an existing administrative procedure that will probably change in due course. The fuel levy will then be made available to the Department of Transport directly. The undermentioned figures are provided to give a full picture of payment of the fuel levy and are not taken into consideration in the final calculations.

For 1996/97 an amount of approximately **R 160** million was paid to District/Services Councils and was in turn paid over to the Department of Transport.

#### **5.4.3 Housing subsidy scheme**

It is estimated that approximately 40% of the total subsidy made available to municipalities for housing is used for some form of municipal infrastructure and is not spent on top structures per se. Since 1994/95 an amount of **R4, 493** billion has been disbursed to the provinces to finance their housing programmes. Of this amount approximately **R1, 797** billion (40%) was used for municipal services. This figure is not included in the table but is mentioned to give a comprehensive picture of the funds flowing to local government level.

#### **5.4.4 Special Integrated Presidential Projects (SIPP's)**

The Special Integrated Presidential Projects are aimed at rapid and visible improvements in municipal infrastructure. It was specifically targeted to promote urban renewal in violence torn areas. They involve the integrated provision of infrastructure, housing, and community facilities and job creation in the affected areas. The programme is the responsibility of the Department of Housing. In total an amount of **R2, 034** billion has been allocated over a period of 5 years.

The programme commenced in 1994/95 and the following were allocated from 1995/96:

| <b>1995/96</b> | <b>1996/97</b> | <b>1997/98</b> |
|----------------|----------------|----------------|
| <b>R`000</b>   | <b>R`000</b>   | <b>R`000</b>   |
| 557,490        | 576,573        | 244,832        |



**CRITERIA AND CONDITIONS FOR ALLOCATION OF FUNDS TO LOCAL GOVERNMENT.**

Provincial government generally uses the following criteria and conditions to allocate funds to municipalities:

**1. GAUTENG**

**Inter Governmental Grants (IGG`s)**

Allocated in accordance with a poverty index. The formula is based on population figures for 1995/96, per capita income and an inversion ratio. An adjusted inverse ratio is calculated and applied to the 1995/96 provincial population figure to calculate a weighted population figure. The weighted population figure is used as a base to allocate IGG`s.

**Other subsidies**

Other subsidies are allocated to municipalities based on bilateral discussions between role-players.

**2. KWAZULU/NATAL**

**IGG`s**

Allocate funds to municipalities based on the following:

- Population size.
- Amount of service payment arrears.
- Steps taken by municipality to recover amounts in arrears.
- Progress made with integration of former black municipalities.
- New areas incorporated in municipality during demarcation process.

Subsidies are based on a system of essential, urgent and necessary financial assistance to municipalities. Requests for financial assistance from local government are to a large extent based on the need for financial assistance although the abovementioned criteria are also taken into consideration.

In allocating the funds representations are obtained from the following organizations:

Provincial branch of the IMFO;  
Kwanaloga;  
Department of Local Government and Housing

**R293 Town Subsidies**

The subsidy is calculated as follows

Approved budget 94/95 – Income generated = Subsidy

The subsidy is fixed for 5 years from 1995/96, thereafter reduced by 20% per year until it theoretically ends up as a contribution of nil Rand.

Local councils were given an undertaking in 1995/96 that financial support for operational expenditure in respect of former KwaZulu/Natal Provincial Administration towns would be continued at the same level for at least five years. After 5 years the financial assistance will be reduced by 20% per annum, thus ending this support programme in a total of 10 years.

**Other subsidies**

Other subsidies are allocated according to budgets presented to the Provincial government by municipalities. The guiding principle in all cases is that the provincial government should assist local authorities to prevent financial collapse.

**3. WESTERN CAPE**

**IGG`s**

Subsidies for this purpose are allocated according to poverty index as proposed by the Department of Constitutional Development. No proportion is allocated on a discretionary basis. During discussions with the representative of the Department of Local Government it was indicated in future another method of subsidising local government will be developed. More information in this regard was not available.

**Other subsidies**

|                               |  |
|-------------------------------|--|
| Fire brigade                  | Pro rata to claims for actual expenditure.       |
| Operating expenditure         | According to claims based on budget shortages.   |
| Settlement assistance         | On merit according to applications received.     |
| Upgrade of Land Tenure Rights | Opening of town registers according to needs.    |
| Disaster management           | For maintenance of equipment according to needs. |

**4. FREE STATE**

**IGG`s**

90% according to poverty index.  
10% on an ad hoc basis.

**R 293 Towns**

Funds are allocated based on the needs of former R293 Towns.

**Other subsidies**

|                       |   |
|-----------------------|---|
| Fire Brigade Services | Subsidies based on claims received from municipalities                |
| Library Services      | Subsidize salary of one librarian or on need for capital expenditure. |

**5. NORTHERN PROVINCE**

**IGG`s**

Allocated primarily according to discretion of Department of Local Government based on budget of previous year. The previous years budget and actual expenditure is used as a basis to determine the amounts allocated to municipalities.

**R293 Town Subsidies**

Based on actual expenditure of former R 293 towns.

**6. MPUMALANGA**

**IGG`s**

Basis used for allocation is poverty index and the formula developed by the Department of Constitutional Development.

**R293 Town Subsidies**

Allocation based on the following factors:

- Current contractual obligations.
- Current personnel.
- Running cost of previous years.

**7. EASTERN CAPE**

**IGG`s**

Allocate funds according to poverty index as indicated below

Indicated population earning less than R5000 per annum.

Indicated index of each council vs whole province:

**R 293 Town subsidies**

Subsidy based on evaluation of financial position of municipality.

**Other subsidies**

Fire brigade                      Municipality must submit business plan.

**8. NORTH WEST PROVINCE**

**IGG`s**

For 1996/97 IGG`s were allocated as follows;

- Based on poverty index - 57% poverty rate applied to population figures for each municipality;
- For grades 7 to 10 municipalities the calculated grant was reduced by 20% as the poverty rate in such municipalities will be lower;
- For grade 5 to 6 the calculated grant was reduced by 10% -same reason as above;
- R20m has been reserved to upgrade rural areas - basis for allocation same as above.

**R293 Town subsidies**

Subsidies are based on actual expenditure of former R 293 towns.

**Other subsidies**

Fire Brigade                      Municipalities are subsidized to approximately 40% of expenditure.

**9. NORTHERN CAPE**

**IGG`s**

Allocated in accordance with poverty index. The formula of the Department of Constitutional Development is used.

**Other subsidies**

Health                              Based on number of patients and beds.

Subsidies                              To offset deficits in operating costs - based on actual figures of municipalities.

This document attempts to give a broad overview of the criteria and conditions used by provincial government in allocating funds to municipalities. The criteria and conditions are mostly determined by the provincial governments themselves and continuously subject to change.

## APPENDIX B

### METHODOLOGY

Various sources were utilized to obtain information to calculate the flow of funds from other spheres of government to municipalities. The following sources were utilized to obtain information:

- (a) The information contained in the investigation undertaken by the Department of Finance into the allocation of funds to municipalities during 1996.
- (b) The investigation undertaken by Ernst & Young on behalf of the Department of Constitutional Development tracking Intergovernmental Grants (IGG's) and analyzing the final Provincial budget estimates for the 1996/97 and 1997/98 financial years.
- (c) Based on the information contained in the abovementioned investigations, Schedules were compiled and forwarded to the Provincial Treasuries. They were requested to ascertain whether the figures contained in the Schedules are correct and, if not, what the exact situation is. Copies of the Schedules compiled for each Province are attached.
- (d) Each Provincial Treasury was then visited and the figures were discussed with them.
- (e) Information regarding the petrol levies paid to district/services councils was obtained from the Department of Finance
- (f) Figures regarding the Municipal Infrastructure Programme (MIP), the Extension to the Municipal Infrastructure Programme (EMIP), the Rural Infrastructure Development Programme (RAID), and the Contingency Fund for Disasters were obtained from the Department of Constitutional Development.
- (g) Subsidies for water and sewage for municipalities are the responsibility of the Department of Water Affairs and the necessary information in this regard was obtained from them.
- (h) Discussions with the Department of State Expenditure took place to determine whether they could assist in the provision of information. Based on the available information some figures regarding R293 towns were provided by them.
- (i) The Department of Public Works was contacted to provide figures regarding the amount budgeted for property tax to be paid to municipalities.

The information requested covered the financial years 1995/96, 1996/97 and 1997/98. Budgeted figures and actual expenditure for current and capital for 1995/96 and 1996/97 were requested and for 1997/98, budgeted figures were requested.

It must be pointed out that a number of difficulties arose during the investigation especially regarding obtaining the information from the responsible bodies. However, this is the most comprehensive and detailed investigation undertaken up to date regarding this subject.

The figures and other information contained in the Report were obtained from the Provincial Governments and other government bodies. Although all efforts were made to ensure the accuracy of the figures and information during the discussions with officials of the Provincial Governments and other role-players in the process of compiling the report, it can not be guaranteed. In some cases certain simplifying assumptions have been made.

## **NATIONAL GOVERNMENT CAPITAL EXPENDITURE PROGRAMMES WITH REGARD TO LOCAL GOVERNMENTS**

With the advent of democracy in South Africa an urgent need was identified for addressing the backlogs that existed with regard to municipal infrastructure in areas where the previous governments policy had been to limit development. One of the newly elected governments' responses was to allocate money to rectifying this situation with short to long term programmes. These programmes are:

### **Municipal Infrastructure Programme (MIP)**

This programme will function till the end of December 1997 and, after having been operational for nearly three years, an amount in excess of R 800m will have been spent thereon. The thrust has mainly been on installing new and upgrading existing internal bulk and connector infrastructure. This programme is to be incorporated into the Consolidated Municipal Infrastructure programme. (CMIP). Both are administered by the Department of Constitutional Affairs (DCD)

### **Extension to Municipal Infrastructure Programme (EMIP)**

In addition to the original R 751. 1-m grant allocated to the MIP an additional R 600m was also allocated for the extension of MIP to enhance new and existing housing developments. The mandate of the programme was to provide a once off grant mainly for capital bulk and connector services to local authorities that do not have the financial capacity to engage in such capital projects. This project will also have run its course by the end of 1997 and will also be incorporated into the CMIP. Like the MIP it is also administered by DCD.

### **Bulk and Connector Infrastructure Grants (BCIG)**

This programme is administered by the Department of Housing (DoH). It is intended for bulk and connector infrastructure in respect of water supply, sanitation, roads and stormwater drainage. This programme excludes bulk infrastructure, which is defined as national bulk infrastructure such as dams operated by the Department of Water Affairs.

This programme is scheduled for incorporation into the CMIP. All the funds allocated will have been disbursed during the 1997/98 financial year.

### **Consolidated Municipal Infrastructure Programme (CMIP )**

While the MIP and EMIP were relatively short-term programmes the Consolidated Municipal Infrastructure Programme (CMIP) is designed for the medium to long term. At this stage it is envisaged that it will be a ten-year programme. It will fund three categories of infrastructure, namely:

- The installation of new internal bulk and connector infrastructure for greenfield development.
- The upgrading of existing internal bulk and connector infrastructure.
- The rehabilitation of existing bulk and connector infrastructure, and the rehabilitation of internal services as appropriate.

The CMIP arose out of a need to rationalise and integrate existing transfer mechanisms. It will incorporate the MIP, EMIP and BCIG when the last of the funds allocated to these programmes have been disbursed. The CMIP programme is being administered by the DCD.

### **Rural Administrative Infrastructure Development. (RAID)**

This programme was instituted to help rural local authorities to construct offices and buildings in which to conduct their administrative tasks. An amount in excess of R 120 mln was allocated during the 1996/97 financial year.

### **Dept of Water Affairs – capital subsidy for infrastructure for the supply of water**

In terms of this programme, the DWAF provides water and sanitation services in rural areas where formal local government does not exist. The DWAF generally finance and often implement this programme as municipalities in areas served by this programme are undercapacitated. This programme will be phased out as capacity is built.

| TOTAL TRANSFERS TO LOCAL GOVERNMENT 1995/96  |                |                |                |                |                |                |                |                |                |                | TABLE 1          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Function/Dept  | Gauteng        | KZ/Natal       | W Cape         | Free State     | Northern P     | Mpum           | Eastern C      | North West     | North C        | Unalloc        | TOTAL            |
|  | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000            |
| <b>Agency payments</b>   |                |                |                |                |                |                |                |                |                |                |                  |
| Health   | 205,583        | 41,817         | 158,671        | 86,994         | 42,907         | 15,992         | 140,180        | 36,900         | 38,877         |                | 767,921          |
| Social Services  |                |                |                | 1,000          |                | 1,050          |                |                |                |                | 2,050            |
| *Transport   |                | 23,346         | 103,583        | 1,223          |                | 86             | 22,093         | 32,835         | 81,018         |                | 264,184          |
| <b>Sub-total</b>   | <b>205,583</b> | <b>65,163</b>  | <b>262,254</b> | <b>89,217</b>  | <b>42,907</b>  | <b>17,128</b>  | <b>162,273</b> | <b>69,735</b>  | <b>119,895</b> |                | <b>1,034,155</b> |
| <b>Subsidies to former white municipalities</b>  |                |                |                |                |                |                |                |                |                |                |                  |
| Fire Brigade   | 4,960          | 11,596         | 4,500          | 4,000          | 1,259          | 2,744          | 6,000          | 10,700         | 682            |                | 46,441           |
| Library Services   | 135            | 12,371         | 8,389          | 4,912          |                | 5,200          | 836            |                | 922            |                | 32,765           |
| Disaster Management  | 1,840          |                |                |                |                |                | 750            |                |                |                | 2,590            |
| <b>Sub total</b>   | <b>6,935</b>   | <b>23,967</b>  | <b>12,889</b>  | <b>8,912</b>   | <b>1,259</b>   | <b>7,944</b>   | <b>7,586</b>   | <b>10,700</b>  | <b>1,604</b>   |                | <b>81,796</b>    |
| <b>Explicit transfers</b>  |                |                |                |                |                |                |                |                |                |                |                  |
| MIP  | 7,400          |                | 17,600         | 17,900         | 38,900         | 15,600         | 16,600         | 5,700          | 6,100          |                | 125,800          |
| EMIP   |                |                |                |                |                |                |                |                |                | 500            | 500              |
| CMIP   |                |                |                |                |                |                |                |                |                |                |                  |
| BCIG   |                |                |                |                |                |                |                |                |                |                |                  |
| IGG's  | 293,600        | 86,695         | 132,061        | 73,922         | 37,874         | 49,613         | 91,987         | 37,167         | 27,301         |                | 830,220          |
| R293 towns   |                | 232,718        |                | 66,683         | 60,133         | 61,852         | 115,000        | 109,175        |                |                | 645,561          |
| Service of loans   | 82,792         | 50,683         |                | 29,561         |                |                | 27,100         |                | 200            |                | 190,336          |
| Sport & Recreation   |                |                |                | 526            |                |                | 747            |                |                |                | 1,273            |
| Debt redemption  | 44,000         |                | 28,000         | 14,000         |                |                | 37,000         | 3,000          | 3,000          |                | 129,000          |
| **Other  |                | 201,138        | 10,430         | 31,511         |                |                | 73,597         | 45,374         | 8,741          |                | 370,791          |
| <b>Sub total</b>   | <b>427,792</b> | <b>571,234</b> | <b>188,091</b> | <b>234,103</b> | <b>136,907</b> | <b>127,065</b> | <b>362,031</b> | <b>200,416</b> | <b>45,342</b>  | <b>500</b>     | <b>2,293,481</b> |
| <b>Implicit transfers</b>  |                |                |                |                |                |                |                |                |                |                |                  |
| DWAF   | 504            | 1,589          | 6,259          | 4,297          | 16,174         | 6,727          | 3,504          | 1,466          | 659            | 569,599        | 610,778          |
| ***ESCOM   |                |                |                |                |                |                |                |                |                | 218,000        | 218,000          |
| Disaster fund  |                |                |                |                |                |                |                |                |                |                |                  |
| <b>Sub total</b>   | <b>504</b>     | <b>1,589</b>   | <b>6,259</b>   | <b>4,297</b>   | <b>16,174</b>  | <b>6,727</b>   | <b>3,504</b>   | <b>1,466</b>   | <b>659</b>     | <b>787,599</b> | <b>828,778</b>   |
| <b>TOTAL</b>   | <b>640,814</b> | <b>661,953</b> | <b>469,493</b> | <b>336,529</b> | <b>197,247</b> | <b>158,864</b> | <b>535,394</b> | <b>282,317</b> | <b>167,500</b> | <b>788,099</b> | <b>4,238,210</b> |
| * Includes agency fees and vehicle registration  |                |                |                |                |                |                |                |                |                |                |                  |
| ** Settlement assistance, land tenure rights, resorts as well as financial assistance from own budget.   |                |                |                |                |                |                |                |                |                |                |                  |
| *** Local government debt for 1995/96. Total debt since 1991/92 amounts to approximately R1,634 million. |                |                |                |                |                |                |                |                |                |                |                  |



| CURRENT TRANSFERS TO LOCAL GOVERNMENT 1995/96                                    |                |                |                |                |                |                |                |                |                |                | TABLE 2          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Function/Dept  | Gauteng        | KZ/Natal       | Western C      | Free State     | Northern F     | Mpumalan       | Eastern C      | North Wes      | North C        | Unalloc        | TOTAL            |
|  | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000            |
| <b>Agency payments</b>   |                |                |                |                |                |                |                |                |                |                |                  |
| Health   | 205,583        | 41,817         | 153,598        | 86,994         | 42,907         | 15,992         | 140,180        | 36,900         | 38,877         |                | <b>762,848</b>   |
| Social Services  |                |                |                | 1,000          |                |                |                |                |                |                | <b>1,000</b>     |
| *Transport   |                | 23,346         | 56,531         | 1,223          |                | 86             | 22,093         | 9,200          | 79,388         |                | <b>191,867</b>   |
| <b>Sub-total</b>   | <b>205,583</b> | <b>65,163</b>  | <b>210,129</b> | <b>89,217</b>  | <b>42,907</b>  | <b>16,078</b>  | <b>162,273</b> | <b>46,100</b>  | <b>118,265</b> |                | <b>955,715</b>   |
| <b>Subsidies to former white municipalities</b>                                  |                |                |                |                |                |                |                |                |                |                |                  |
| Fire Brigade   | 4,960          | 11,596         | 4,500          | 4,000          | 1,259          |                | 6,000          |                | 682            |                | <b>32,997</b>    |
| Library Services   | 35             | 12,371         | 4,589          |                |                | 5,200          | 836            |                | 447            |                | <b>23,478</b>    |
| Disaster Management  | 1,840          |                |                |                |                |                | 750            |                |                |                | <b>2,590</b>     |
| <b>Sub total</b>   | <b>6,835</b>   | <b>23,967</b>  | <b>9,089</b>   | <b>4,000</b>   | <b>1,259</b>   | <b>5,200</b>   | <b>7,586</b>   |                | <b>1,129</b>   |                | <b>59,065</b>    |
| <b>Explicit transfers</b>  |                |                |                |                |                |                |                |                |                |                |                  |
| IGG`s  | 293,600        | 86,695         | 132,061        | 73,922         | 37,874         | 49,613         | 91,987         | 37,167         | 27,301         |                | <b>830,220</b>   |
| R293 towns   |                | 232,718        |                | 16,036         | 60,133         | 61,852         | 115,000        | 73,852         |                |                | <b>559,591</b>   |
| Service of loans   | 82,792         | 50,683         |                | 29,561         |                |                | 27,100         |                | 200            |                | <b>190,336</b>   |
| Sport & Recreation   |                |                |                |                |                |                | 747            |                |                |                | <b>747</b>       |
| Debt redemption  | 44,000         |                | 28,000         | 14,000         |                |                | 37,000         | 3,000          | 3,000          |                | <b>129,000</b>   |
| **Other  |                | 201,138        | 2,482          | 16,511         |                |                | 73,597         | 22,120         | 7,541          |                | <b>323,389</b>   |
| <b>Sub total</b>   | <b>420,392</b> | <b>571,234</b> | <b>162,543</b> | <b>150,030</b> | <b>98,007</b>  | <b>111,465</b> | <b>345,431</b> | <b>136,139</b> | <b>38,042</b>  |                | <b>2,033,283</b> |
| <b>Implicit transfers</b>  |                |                |                |                |                |                |                |                |                |                |                  |
| DWAF   |                |                |                |                |                |                |                |                |                | 114,489        | <b>114,489</b>   |
| *** ESCOM  |                |                |                |                |                |                |                |                |                | 218,000        | <b>218,000</b>   |
| Disaster Fund  |                |                |                |                |                |                |                |                |                |                |                  |
| <b>Sub total</b>   |                |                |                |                |                |                |                |                |                | <b>332,489</b> | <b>332,489</b>   |
|  |                |                |                |                |                |                |                |                |                |                |                  |
| <b>TOTAL</b>   | <b>632,810</b> | <b>660,364</b> | <b>381,761</b> | <b>243,247</b> | <b>142,173</b> | <b>132,743</b> | <b>515,290</b> | <b>182,239</b> | <b>157,436</b> | <b>332,489</b> | <b>3,380,552</b> |
| * Includes agency fees and vehicle registration                                  |                |                |                |                |                |                |                |                |                |                |                  |
| ** Settlement assistance ,land tenure rights and resorts                         |                |                |                |                |                |                |                |                |                |                |                  |
| *** Total debt since 1991/92 to May 1997 amount to approximately R1,634 billion. |                |                |                |                |                |                |                |                |                |                |                  |

| CAPITAL TRANSFERS TO LOCAL GOVERNMENT 1995/96   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  | TABLE 3        |
|---|------------------|-------------------|-----------------|---------------------|---------------------|---------------|--------------------|---------------------|------------------|------------------|----------------|
| Function/Dept                                   | Gauteng<br>R'000 | KZ/Natal<br>R'000 | W Cape<br>R'000 | Free State<br>R'000 | Northern P<br>R'000 | Mpum<br>R'000 | Eastern C<br>R'000 | North West<br>R'000 | North C<br>R'000 | Unalloc<br>R'000 | TOTAL<br>R'000 |
| <b>Agency payments</b>                          |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| Health  |                  |                   | 5,073           |                     |                     |               |                    |                     |                  |                  | 5,073          |
| Social Services                                 |                  |                   |                 |                     |                     | 1,050         |                    |                     |                  |                  | 1,050          |
| Transport                                       |                  |                   | 47,052          |                     |                     |               |                    | 23,635              | 1,630            |                  | 72,317         |
| <b>Sub-total</b>                                |                  |                   | <b>52,125</b>   |                     |                     | <b>1,050</b>  |                    | <b>23,635</b>       | <b>1,630</b>     |                  | <b>78,440</b>  |
| <b>Subsidies to former white municipalities</b> |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| Fire Brigade                                    |                  |                   |                 |                     |                     | 2,744         |                    | 10,700              |                  |                  | 13,444         |
| Library Services                                | 100              |                   | 3,800           | 4,912               |                     |               |                    |                     | 475              |                  | 9,287          |
| Disaster management                             |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| <b>Sub total</b>                                | <b>100</b>       |                   | <b>3,800</b>    | <b>4,912</b>        |                     | <b>2,744</b>  |                    | <b>10,700</b>       | <b>475</b>       |                  | <b>22,731</b>  |
| <b>Explicit transfers</b>                       |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| MIP   | 7,400            |                   | 17,600          | 17,900              | 38,900              | 15,600        | 16,600             | 5,700               | 6,100            |                  | 125,800        |
| EMIP  |                  |                   |                 |                     |                     |               |                    |                     |                  | 500              | 500            |
| CMIP  |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| BCIG  |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| R293 towns                                      |                  |                   |                 | 50,647              |                     |               |                    | 35,323              |                  |                  | 85,970         |
| Sport & Recreation                              |                  |                   |                 | 526                 |                     |               |                    |                     |                  |                  | 526            |
| Debt redemption                                 |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| *Other  |                  |                   | 7,948           | 15,000              |                     |               |                    | 23,254              | 1,200            |                  | 47,402         |
| <b>Sub total</b>                                | <b>7,400</b>     |                   | <b>25,548</b>   | <b>84,073</b>       | <b>38,900</b>       | <b>15,600</b> | <b>16,600</b>      | <b>64,277</b>       | <b>7,300</b>     | <b>500</b>       | <b>260,198</b> |
| <b>Implicit transfers</b>                       |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| DWAF  | 504              | 1,589             | 6,259           | 4,297               | 16,174              | 6,727         | 3,504              | 1,466               | 659              | 455,110          | 496,289        |
| ESKOM   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| Disaster fund                                   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                |
| <b>Sub total</b>                                | <b>504</b>       | <b>1,589</b>      | <b>6,259</b>    | <b>4,297</b>        | <b>16,174</b>       | <b>6,727</b>  | <b>3,504</b>       | <b>1,466</b>        | <b>659</b>       | <b>455,110</b>   | <b>496,289</b> |
| <b>TOTAL</b>                                    | <b>8,004</b>     | <b>1,589</b>      | <b>87,732</b>   | <b>93,282</b>       | <b>55,074</b>       | <b>26,121</b> | <b>20,104</b>      | <b>100,078</b>      | <b>10,064</b>    | <b>455,610</b>   | <b>857,658</b> |

\* Settlement assistance, land tenure rights and resorts.

| TOTAL TRANSFERS TO LOCAL GOVERNMENT 1996/97     |                |                |                |                |                |                |                |                |                |                  | TABLE 4          |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
| Function/Dept                                   | Gauteng        | KZ/Natal       | W Cape         | Free State     | Northern P     | Mpum           | Eastern C      | North West     | North C        | Unalloc          | TOTAL            |
|   | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000            | R`000            |
| <b>Agency payments</b>                          |                |                |                |                |                |                |                |                |                |                  |                  |
| Health  | 211,373        | 40,149         | 175,312        | 86,056         | 25,583         | 54,456         | 185,016        | 38,360         | 34,250         |                  | 850,555          |
| Social Services                                 | 4,300          |                | 2,500          |                |                | 1,050          |                | 10,000         |                |                  | 17,850           |
| *Transport                                      | 900            | 4,612          | 110,043        | 34,900         |                | 26,950         | 12,129         | 28,510         | 69,692         |                  | 287,736          |
| <b>Sub-total</b>                                | <b>216,573</b> | <b>44,761</b>  | <b>287,855</b> | <b>120,956</b> | <b>25,583</b>  | <b>82,456</b>  | <b>197,145</b> | <b>76,870</b>  | <b>103,942</b> |                  | <b>1,156,141</b> |
| <b>Subsidies to former white municipalities</b> |                |                |                |                |                |                |                |                |                |                  |                  |
| Fire Brigade                                    | 18,129         | 11,596         | 4,482          | 5,000          | 1,259          | 12,736         | 6,000          | 11,360         | 682            |                  | 71,244           |
| Library Services                                | 135            | 12,264         | 8,160          | 1,971          |                | 4,584          | 19,372         |                | 886            |                  | 47,372           |
| Disaster Management                             | 2,863          |                |                |                |                | 1,449          | 750            |                | 66             |                  | 5,128            |
| <b>Sub total</b>                                | <b>21,127</b>  | <b>23,860</b>  | <b>12,642</b>  | <b>6,971</b>   | <b>1,259</b>   | <b>18,769</b>  | <b>26,122</b>  | <b>11,360</b>  | <b>1,634</b>   |                  | <b>123,744</b>   |
| <b>Explicit transfers</b>                       |                |                |                |                |                |                |                |                |                |                  |                  |
| MIP   | 51,000         | 25,700         | 46,200         | 39,900         | 44,800         | 15,900         | 42,600         | 17,200         | 17,900         |                  | 301,200          |
| EMIP  |                | 41,700         | 22,000         | 7,700          | 50,200         |                | 41,200         |                | 5,800          |                  | 168,600          |
| CMIP  |                |                |                |                |                |                |                |                |                |                  |                  |
| **BCIG  |                | 13,937         | 29,269         | 11,328         | 11,174         | 2,740          |                |                | 2,150          |                  | 70,598           |
| IGG's   | 156,343        | 151,000        | 82,692         | 62,894         | 74,418         | 60,827         | 124,700        | 68,084         | 25,132         |                  | 806,090          |
| R293 towns                                      |                | 570,732        |                | 53,434         | 50,146         | 24,702         | 120,000        | 124,669        |                |                  | 943,683          |
| Service of Loans                                | 136,046        | 50,683         |                | 392            |                |                | 27,100         |                | 241            |                  | 214,462          |
| Sport & Recreation                              | 4,857          |                | 1,300          | 1,438          |                | 107            | 14,433         |                |                |                  | 22,135           |
| Debt redemption                                 | 44,000         |                | 28,000         | 14,000         |                |                | 37,000         | 3,000          | 3,000          |                  | 129,000          |
| ***Other  | 21,243         | 25,500         | 102,605        | 84,338         | 38,669         | 14,800         | 56,775         | 24,351         | 27,995         |                  | 396,276          |
| <b>Sub total</b>                                | <b>413,489</b> | <b>879,252</b> | <b>312,066</b> | <b>275,424</b> | <b>269,407</b> | <b>119,076</b> | <b>463,808</b> | <b>237,304</b> | <b>82,218</b>  |                  | <b>3,052,044</b> |
| <b>Implicit transfers</b>                       |                |                |                |                |                |                |                |                |                |                  |                  |
| DWAF  | 290            | 2,155          | 4,696          | 16,097         | 42             | 4,746          | 3,233          |                | 3,386          | 783,612          | 818,257          |
| **** ESCOM                                      |                |                |                |                |                |                |                |                |                | 241,000          | 241,000          |
| Disaster fund                                   |                |                |                |                |                |                |                |                |                |                  |                  |
| <b>Sub total</b>                                | <b>290</b>     | <b>2,155</b>   | <b>4,696</b>   | <b>16,097</b>  | <b>42</b>      | <b>4,746</b>   | <b>3,233</b>   |                | <b>3,386</b>   | <b>1,024,612</b> | <b>1,059,257</b> |
| <b>TOTAL</b>                                    | <b>651,479</b> | <b>950,028</b> | <b>617,259</b> | <b>419,448</b> | <b>296,291</b> | <b>225,047</b> | <b>690,308</b> | <b>325,534</b> | <b>191,180</b> | <b>1,024,612</b> | <b>5,391,186</b> |

\* Includes agency fees and vehicle registration

\*\* Approximated figures for funds committed to projects based on information provided by main role-players.

\*\*\* Settlement assistance, land tenure rights, resorts as well as financial assistance from own budget.

\*\*\*\* Local government debt in 1996/97.

| CURRENT TRANSFERS TO LOCAL GOVERNMENT 1996/97             |                |                |                |                |                |                |                |                |                |                | TABLE 5          |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Function/Dept   | Gauteng        | KZ/Natal       | W Cape         | Free State     | Northern F     | Mpum           | Eastern C      | North Wes      | North C        | Unalloc        | TOTAL            |
|   | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000            |
| <b>Agency payments</b>                                    |                |                |                |                |                |                |                |                |                |                |                  |
| Health  | 211,373        | 40,149         | 170,324        | 85,395         | 25,583         | 54,456         | 185,016        | 38,360         | 34,250         |                | <b>844,906</b>   |
| Social Services   |                |                | 400            |                |                |                |                |                |                |                | <b>400</b>       |
| *Transport  | 900            | 4,612          | 74,773         | 32,900         |                | 26,950         | 12,129         | 8,245          | 68,027         |                | <b>228,536</b>   |
| <b>Sub-total</b>  | <b>212,273</b> | <b>44,761</b>  | <b>245,497</b> | <b>118,295</b> | <b>25,583</b>  | <b>81,406</b>  | <b>197,145</b> | <b>46,605</b>  | <b>102,277</b> |                | <b>1,073,842</b> |
| <b>Subsidies to former white municipalities</b>           |                |                |                |                |                |                |                |                |                |                |                  |
| Fire Brigade  | 18,129         | 11,596         | 4,482          | 5,000          | 1,259          |                | 6,000          | 2,200          | 682            |                | <b>49,348</b>    |
| Library Services  | 35             | 12,264         | 4,500          | 1,971          |                | 4,584          | 19,372         |                | 411            |                | <b>43,137</b>    |
| Disaster Management                                       | 2,863          |                |                |                |                | 1,449          | 750            |                | 66             |                | <b>5,128</b>     |
| <b>Sub total</b>  | <b>21,027</b>  | <b>23,860</b>  | <b>8,982</b>   | <b>6,971</b>   | <b>1,259</b>   | <b>6,033</b>   | <b>26,122</b>  | <b>2,200</b>   | <b>1,159</b>   |                | <b>97,613</b>    |
| <b>Explicit transfers</b>                                 |                |                |                |                |                |                |                |                |                |                |                  |
| IGG`s   | 156,343        | 151,000        | 82,692         | 62,894         | 74,418         | 60,827         | 124,700        | 68,084         | 25,132         |                | <b>806,090</b>   |
| R293 towns  |                | 570,732        |                | 30,875         | 50,146         | 24,702         | 120,000        | 67,327         |                |                | <b>863,782</b>   |
| Service of Loans  | 136,046        | 50,683         |                | 392            |                |                | 27,100         |                | 241            |                | <b>214,462</b>   |
| Sport & Recreation  |                |                |                | 36             |                | 107            | 14,433         |                |                |                | <b>14,576</b>    |
| Debt redemption   | 44,000         |                | 28,000         | 14,000         |                |                | 37,000         | 3,000          | 3,000          |                | <b>129,000</b>   |
| **Other   |                |                | 90,365         | 67,040         | 26,119         | 4,570          | 45,150         |                | 8,910          |                | <b>242,154</b>   |
| <b>Sub total</b>  | <b>336,389</b> | <b>772,415</b> | <b>201,057</b> | <b>175,237</b> | <b>150,683</b> | <b>90,206</b>  | <b>368,383</b> | <b>138,411</b> | <b>37,283</b>  |                | <b>2,270,064</b> |
| <b>Implicit transfers</b>                                 |                |                |                |                |                |                |                |                |                |                |                  |
| DWAF  |                |                |                |                |                |                |                |                |                | 496,969        | <b>496,969</b>   |
| ***ESCOM  |                |                |                |                |                |                |                |                |                | 241,000        | <b>241,000</b>   |
| Disaster Fund   |                |                |                |                |                |                |                |                |                |                |                  |
| <b>Sub Total</b>  |                |                |                |                |                |                |                |                |                | <b>737,969</b> | <b>737,969</b>   |
| <b>TOTAL</b>  | <b>569,689</b> | <b>841,036</b> | <b>455,536</b> | <b>300,503</b> | <b>177,525</b> | <b>177,645</b> | <b>591,650</b> | <b>187,216</b> | <b>140,719</b> | <b>737,969</b> | <b>4,179,488</b> |
| * Includes agency fees and vehicle registration           |                |                |                |                |                |                |                |                |                |                |                  |
| ** Settlement assistance, land tenure rights and resorts. |                |                |                |                |                |                |                |                |                |                |                  |
| *** Debt to ESCOM in 1996/97                              |                |                |                |                |                |                |                |                |                |                |                  |

| CAPITAL TRANSFERS TO LOCAL GOVERNMENT 1996/97   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  | TABLE 6          |
|---|------------------|-------------------|-----------------|---------------------|---------------------|---------------|--------------------|---------------------|------------------|------------------|------------------|
| Function/Dept                                   | Gauteng<br>R'000 | KZ/Natal<br>R'000 | W Cape<br>R'000 | Free State<br>R'000 | Northern P<br>R'000 | Mpum<br>R'000 | Eastern C<br>R'000 | North West<br>R'000 | North C<br>R'000 | Unalloc<br>R'000 | TOTAL<br>R'000   |
| <b>Agency payments</b>                          |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| Health  |                  |                   | 4,988           | 661                 |                     |               |                    |                     |                  |                  | 5,649            |
| Social Services                                 | 4,300            |                   | 2,100           |                     |                     | 1,050         |                    | 10,000              |                  |                  | 17,450           |
| Transport                                       |                  |                   | 35,270          | 2,000               |                     |               |                    | 20,265              | 1,665            |                  | 59,200           |
| <b>Sub-total</b>                                | <b>4,300</b>     |                   | <b>42,358</b>   | <b>2,661</b>        |                     | <b>1,050</b>  |                    | <b>30,265</b>       | <b>1,665</b>     |                  | <b>82,299</b>    |
| <b>Subsidies to former white municipalities</b> |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| Fire Brigade                                    |                  |                   |                 |                     |                     | 12,736        |                    | 9,160               |                  |                  | 21,896           |
| Library Services                                | 100              |                   | 3,660           |                     |                     |               |                    |                     | 475              |                  | 4,235            |
| Disaster management                             |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| <b>Sub total</b>                                | <b>100</b>       |                   | <b>3,660</b>    |                     |                     | <b>12,736</b> |                    | <b>9,160</b>        | <b>475</b>       |                  | <b>26,131</b>    |
| <b>Explicit transfers</b>                       |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| MIP   | 51,000           | 25,700            | 46,200          | 39,900              | 44,800              | 15,900        | 42,600             | 17,200              | 17,900           |                  | 301,200          |
| EMIP  |                  | 41,700            | 22,000          | 7,700               | 50,200              |               | 41,200             |                     | 5,800            |                  | 168,600          |
| CMIP  |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| *BCIG   |                  | 13,937            | 29,269          | 11,328              | 11,174              | 2,740         |                    |                     | 2,150            |                  | 70,598           |
| R293 towns                                      |                  |                   |                 | 22,559              |                     |               |                    | 57,342              |                  |                  | 79,901           |
| Sport & Recreation                              | 4,857            |                   | 1,300           | 1,402               |                     |               |                    |                     |                  |                  | 7,559            |
| Debt redemption                                 |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| **Other   | 21,243           | 25,500            | 12,240          | 17,298              | 12,550              | 10,230        | 11,625             | 24,351              | 19,085           |                  | 154,122          |
| <b>Sub total</b>                                | <b>77,100</b>    | <b>106,837</b>    | <b>111,009</b>  | <b>100,187</b>      | <b>118,724</b>      | <b>28,870</b> | <b>95,425</b>      | <b>98,893</b>       | <b>44,935</b>    |                  | <b>781,980</b>   |
| <b>Implicit transfers</b>                       |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| DWAF  | 290              | 2,155             | 4,696           | 16,097              | 42                  | 4,746         | 3,233              |                     | 3,386            | 286,643          | 321,288          |
| ESKOM   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| Disaster fund                                   |                  |                   |                 |                     |                     |               |                    |                     |                  |                  |                  |
| <b>Sub total</b>                                | <b>290</b>       | <b>2,155</b>      | <b>4,696</b>    | <b>16,097</b>       | <b>42</b>           | <b>4,746</b>  | <b>3,233</b>       |                     | <b>3,386</b>     | <b>286,643</b>   | <b>321,288</b>   |
| <b>TOTAL</b>                                    | <b>81,790</b>    | <b>108,992</b>    | <b>161,723</b>  | <b>118,945</b>      | <b>118,766</b>      | <b>47,402</b> | <b>98,658</b>      | <b>138,318</b>      | <b>50,461</b>    | <b>286,643</b>   | <b>1,211,698</b> |

\* Approximated figures for funds committed to projects based on information provided by main role-players.  
\*\* Settlement assistance, land tenure rights and resorts.(R33.027mln) plus Rural Administrative Infrastructure Development (R121.095mln)

| TOTAL TRANSFERS TO LOCAL GOVERNMENT 1997/98 BUDGET   |                |                  |                |                |                |                |                |                |                |                  | TABLE 7          |
|--|----------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
| Function/Dept  | Gauteng        | KZ/Natal         | W Cape         | Free State     | Northern P     | Mpum           | Eastern C      | North West     | North C        | Unalloc          | TOTAL            |
|  | R`000          | R`000            | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000          | R`000            | R`000            |
| <b>Agency payments</b>   |                |                  |                |                |                |                |                |                |                |                  |                  |
| Health   | 216,051        | 42,174           | 175,030        | 86,390         | 27,480         | 45,338         | 208,700        | 35,691         | 50,571         |                  | 887,425          |
| Social Services  | 3,000          |                  | 400            |                |                | 2,100          |                | 8,100          |                |                  | 13,600           |
| *Transport   | 950            | 14,314           | 127,266        | 7,400          |                | 23,617         | 7,700          | 8,000          | 60,388         |                  | 249,635          |
| <b>Sub-total</b>   | <b>220,001</b> | <b>56,488</b>    | <b>302,696</b> | <b>93,790</b>  | <b>27,480</b>  | <b>71,055</b>  | <b>216,400</b> | <b>51,791</b>  | <b>110,959</b> |                  | <b>1,150,660</b> |
| <b>Susidies to former white municipalities</b>   |                |                  |                |                |                |                |                |                |                |                  |                  |
| Fire Brigade   | 6,280          | 11,596           | 4,482          | 7,000          | 1,259          | 30,631         | 10,000         | 2,200          | 2,082          |                  | 75,530           |
| Library Services   | 2,100          | 9,191            | 7,017          | 13,465         |                |                | 19,372         |                | 945            |                  | 52,090           |
| Disaster Management  | 1,840          |                  |                |                |                | 755            | 2,000          |                | 66             |                  | 4,661            |
| <b>Sub total</b>   | <b>10,220</b>  | <b>20,787</b>    | <b>11,499</b>  | <b>20,465</b>  | <b>1,259</b>   | <b>31,386</b>  | <b>31,372</b>  | <b>2,200</b>   | <b>3,093</b>   |                  | <b>132,281</b>   |
| <b>Explicit transfers</b>  |                |                  |                |                |                |                |                |                |                |                  |                  |
| MIP  | 35,700         | 124,200          | 6,600          | 11,400         | 67,000         | 33,900         | 85,700         | 49,900         | 36,100         |                  | 450,500          |
| EMIP   | 69,000         | 78,300           | 20,000         | 33,700         | 38,600         | 39,600         | 61,400         | 53,400         | 37,400         |                  | 431,400          |
| CMIP   |                |                  |                |                |                |                |                |                |                | 500,000          | 500,000          |
| BCIG   | 103,912        | 120,474          | 55,558         | 37,573         | 46,502         | 11,335         | 19,200         | 23,500         | 8,219          |                  | 426,273          |
| IGG`s  | 156,343        | 151,000          | 173,131        | 65,530         | 74,000         | 68,695         | 124,778        | 68,119         | 21,824         |                  | 903,420          |
| R293 towns   |                | 523,199          |                | 43,495         | 114,364        | 30,122         | 120,781        | 119,136        |                |                  | 951,097          |
| Service of Loans   | 372            |                  |                |                |                |                | 27,100         |                | 217            |                  | 27,689           |
| Sport & Recreation   | 2,000          |                  | 12,300         | 1,402          |                | 1,774          | 16,292         |                |                |                  | 33,768           |
| Debt redemption  | 44,000         |                  | 28,000         | 14,000         |                |                | 37,000         | 3,000          | 3,000          |                  | 129,000          |
| **Other  | 600            |                  | 8,525          | 15,952         |                | 4,192          | 63,871         | 8,400          | 11,522         |                  | 113,062          |
| <b>Sub total</b>   | <b>411,927</b> | <b>997,173</b>   | <b>304,114</b> | <b>223,052</b> | <b>340,466</b> | <b>189,618</b> | <b>556,122</b> | <b>325,455</b> | <b>118,282</b> | <b>500,000</b>   | <b>3,966,209</b> |
| <b>Implicit transfers</b>  |                |                  |                |                |                |                |                |                |                |                  |                  |
| ***DWAF  |                |                  |                |                |                |                |                |                |                | 1,921,737        | 1,921,737        |
| **** ESCOM   |                |                  |                |                |                |                |                |                |                | 99,000           | 99,000           |
| Disaster fund  |                |                  |                |                |                |                |                |                |                | 20,000           | 20,000           |
| <b>Sub total</b>   |                |                  |                |                |                |                |                |                |                | <b>2,040,737</b> | <b>2,040,737</b> |
| <b>TOTAL</b>   | <b>642,148</b> | <b>1,074,448</b> | <b>618,309</b> | <b>337,307</b> | <b>369,205</b> | <b>292,059</b> | <b>803,894</b> | <b>379,446</b> | <b>232,334</b> | <b>2,540,737</b> | <b>7,289,887</b> |
| * Includes agency fees and vehicle registration  |                |                  |                |                |                |                |                |                |                |                  |                  |
| ** Settlement assistance, land tenure rights and resorts as well as financial assistance from own budgets.   |                |                  |                |                |                |                |                |                |                |                  |                  |
| *** From the amount budgeted for 1996/97 financial year DWAF had an unspent amount of R715m which it wanted rolled over to the 1997/98 financial year. The Department of State Expenditure had made no final decision on this amount at the time of writing this report. |                |                  |                |                |                |                |                |                |                |                  |                  |
| This amount has however been included in the tables as if the rollover of these funds had been granted.  |                |                  |                |                |                |                |                |                |                |                  |                  |
| ****Growth in debt up to May 1997.   |                |                  |                |                |                |                |                |                |                |                  |                  |

**CURRENT TRANSFERS TO LOCAL GOVERNMENT 1997/98 BUDGET** **TABLE 8**

| Function/Dept                                   | Gauteng<br>R`000 | KZ/Natal<br>R`000 | W Cape<br>R`000 | Free State<br>R`000 | Northern P<br>R`000 | Mpum<br>R`000  | Eastern C<br>R`000 | North West<br>R`000 | North C<br>R`000 | Unalloc<br>R`000 | TOTAL<br>R`000   |
|---|------------------|-------------------|-----------------|---------------------|---------------------|----------------|--------------------|---------------------|------------------|------------------|------------------|
| <b>Agency payments</b>                          |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Health  | 216,051          | 42,174            | 170,030         | 75,774              | 27,480              | 45,338         | 208,700            | 35,691              | 50,571           |                  | <b>871,809</b>   |
| Social Services                                 |                  |                   | 400             |                     |                     |                |                    |                     |                  |                  | <b>400</b>       |
| *Transport                                      | 950              | 14,314            | 82,266          | 5,400               |                     | 23,617         | 7,700              | 8,000               | 58,415           |                  | <b>200,662</b>   |
| <b>Subtotal</b>                                 | <b>217,001</b>   | <b>56,488</b>     | <b>252,696</b>  | <b>81,174</b>       | <b>27,480</b>       | <b>68,955</b>  | <b>216,400</b>     | <b>43,691</b>       | <b>108,986</b>   |                  | <b>1,072,871</b> |
| <b>Subsidies to former white municipalities</b> |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Fire Brigade                                    | 6,280            | 11,596            | 4,482           | 7,000               | 1,259               | 2,715          | 10,000             | 2,200               | 682              |                  | <b>46,214</b>    |
| Library Services                                | 25               | 9,191             | 3,482           | 1,185               |                     |                | 19,372             |                     | 470              |                  | <b>33,725</b>    |
| Disaster Management                             | 1,840            |                   |                 |                     |                     | 755            | 2,000              |                     | 66               |                  | <b>4,661</b>     |
| <b>Sub total</b>                                | <b>8,145</b>     | <b>20,787</b>     | <b>7,964</b>    | <b>8,185</b>        | <b>1,259</b>        | <b>3,470</b>   | <b>31,372</b>      | <b>2,200</b>        | <b>1,218</b>     |                  | <b>84,600</b>    |
| <b>Explicit transfers</b>                       |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| IGG`s   | 156,343          | 151,000           | 173,131         | 65,530              | 74,000              | 68,695         | 124,778            | 68,119              | 21,824           |                  | <b>903,420</b>   |
| R293 towns                                      |                  | 523,199           |                 | 25,052              | 114,364             | 30,122         | 120,781            | 69,136              |                  |                  | <b>882,654</b>   |
| Service of Loans                                | 372              |                   |                 |                     |                     |                | 27,100             |                     | 217              |                  | <b>27,689</b>    |
| Sport & Recreation                              | 950              |                   |                 |                     |                     | 1,774          | 16,292             |                     |                  |                  | <b>19,016</b>    |
| Debt redemption                                 | 44,000           |                   | 28,000          | 14,000              |                     |                | 37,000             | 3,000               | 3,000            |                  | <b>129,000</b>   |
| **Other   | 600              |                   | 2,225           |                     |                     | 4,192          | 63,871             |                     | 11,522           |                  | <b>82,410</b>    |
| <b>Sub total</b>                                | <b>202,265</b>   | <b>674,199</b>    | <b>203,356</b>  | <b>104,582</b>      | <b>188,364</b>      | <b>104,783</b> | <b>389,822</b>     | <b>140,255</b>      | <b>36,563</b>    |                  | <b>2,044,189</b> |
| <b>Implicit transfers</b>                       |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| DWAF  |                  |                   |                 |                     |                     |                |                    |                     |                  | 492,525          | <b>492,525</b>   |
| ESCOM   |                  |                   |                 |                     |                     |                |                    |                     |                  | 99,000           | <b>99,000</b>    |
| Disaster Fund                                   |                  |                   |                 |                     |                     |                |                    |                     |                  | 20,000           | <b>20,000</b>    |
| <b>Sub Total</b>                                |                  |                   |                 |                     |                     |                |                    |                     |                  | <b>611,525</b>   | <b>611,525</b>   |
| <b>TOTAL</b>                                    | <b>427,411</b>   | <b>751,474</b>    | <b>464,016</b>  | <b>193,941</b>      | <b>217,103</b>      | <b>177,208</b> | <b>637,594</b>     | <b>186,146</b>      | <b>146,767</b>   | <b>611,525</b>   | <b>3,813,185</b> |

\* Includes agency fees and vehicle registration

\*\* Settlement assistance, land tenure rights and resorts.

| CAPITAL TRANSFERS TO LOCAL GOVERNMENT 1997/98 BUDGET |                  |                   |                 |                     |                     |                |                    |                     |                  |                  | TABLE 9          |
|--|------------------|-------------------|-----------------|---------------------|---------------------|----------------|--------------------|---------------------|------------------|------------------|------------------|
| Function/Dept  | Gauteng<br>R'000 | KZ/Natal<br>R'000 | W Cape<br>R'000 | Free State<br>R'000 | Northern P<br>R'000 | Mpum<br>R'000  | Eastern C<br>R'000 | North West<br>R'000 | North C<br>R'000 | Unalloc<br>R'000 | TOTAL<br>R'000   |
| <b>Agency payments</b>                               |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Health   |                  |                   | 5,000           | 10,616              |                     |                |                    |                     |                  |                  | 15,616           |
| Social Services                                      | 3,000            |                   |                 |                     |                     | 2,100          |                    | 8,100               |                  |                  | 13,200           |
| Transport  |                  |                   | 45,000          | 2,000               |                     |                |                    |                     | 1,973            |                  | 48,973           |
| <b>Sub-total</b>                                     | <b>3,000</b>     |                   | <b>50,000</b>   | <b>12,616</b>       |                     | <b>2,100</b>   |                    | <b>8,100</b>        | <b>1,973</b>     |                  | <b>77,789</b>    |
| <b>Subsidies to former white municipalities</b>      |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Fire Brigade   |                  |                   |                 |                     |                     | 27,916         |                    |                     | 1,400            |                  | 29,316           |
| Library Services                                     | 2,075            |                   | 3,535           | 12,280              |                     |                |                    |                     | 475              |                  | 18,365           |
| Disaster management                                  |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| <b>Sub total</b>                                     | <b>2,075</b>     |                   | <b>3,535</b>    | <b>12,280</b>       |                     | <b>27,916</b>  |                    |                     | <b>1,875</b>     |                  | <b>47,681</b>    |
| <b>Explicit transfers</b>                            |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| MIP  | 35,700           | 124,200           | 6,600           | 11,400              | 67,000              | 33,900         | 85,700             | 49,900              | 36,100           |                  | 450,500          |
| EMIP   | 69,000           | 78,300            | 20,000          | 33,700              | 38,600              | 39,600         | 61,400             | 53,400              | 37,400           |                  | 431,400          |
| CMIP   |                  |                   |                 |                     |                     |                |                    |                     |                  | 500,000          | 500,000          |
| BCIG   | 103,912          | 120,474           | 55,558          | 37,573              | 46,502              | 11,335         | 19,200             | 23,500              | 8,219            |                  | 426,273          |
| R293 towns   |                  |                   |                 | 18,443              |                     |                |                    | 50,000              |                  |                  | 68,443           |
| Service of loans                                     |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Sport & Recreation                                   | 1,050            |                   | 12,300          | 1,402               |                     |                |                    |                     |                  |                  | 14,752           |
| Debt redemption                                      |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| *Other   |                  |                   | 6,300           | 15,952              |                     |                |                    | 8,400               |                  |                  | 30,652           |
| <b>Sub total</b>                                     | <b>209,662</b>   | <b>322,974</b>    | <b>100,758</b>  | <b>118,470</b>      | <b>152,102</b>      | <b>84,835</b>  | <b>166,300</b>     | <b>185,200</b>      | <b>81,719</b>    | <b>500,000</b>   | <b>1,922,020</b> |
| <b>Implicit transfers</b>                            |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| **DWAF   |                  |                   |                 |                     |                     |                |                    |                     |                  | 1,429,212        | 1,429,212        |
| ESKOM  |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| Disaster fund  |                  |                   |                 |                     |                     |                |                    |                     |                  |                  |                  |
| <b>Sub total</b>                                     |                  |                   |                 |                     |                     |                |                    |                     |                  | <b>1,429,212</b> | <b>1,429,212</b> |
| <b>TOTAL</b>   | <b>214,737</b>   | <b>322,974</b>    | <b>154,293</b>  | <b>143,366</b>      | <b>152,102</b>      | <b>114,851</b> | <b>166,300</b>     | <b>193,300</b>      | <b>85,567</b>    | <b>1,929,212</b> | <b>3,476,702</b> |

\*Settlement assistance, land tenure rights and resorts.

\*\* From the amount budgeted for 1996/97 financial year DWAF had an unspent amount of R715m which it wanted rolled over to the 1997/98 financial year. The Department of State Expenditure had made no final decision on this amount at the time of writing this report.

This amount has however been included in the tables as if the rollover of these funds had been granted.



