

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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"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.¹

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

¹ 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 than 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.² 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

²An 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

α 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 4.5.³

³ 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:

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

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
- θ 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

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 .⁴

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

⁴At 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:

Population range	Maximum I transfer
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	–	–

TOTAL	2 805	1.9	2 834	1.7	3 051	1.7
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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
Subsidies to former white municipalities												
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%	-	-
Subtotal	59,065	2.7%	22,731	2.9%	97,613	3.4%	26,131	2.3%	84,600	3.2%	47,681	1.4%
Transfers to municipalities												
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%
Subtotal	2,033,283	92.1%	260,198	33.4%	2,270,064	79.2%	781,980	69.2%	2,064,189	78.2%	1,922,020	56.5%
Implicit national transfers												
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%
Subtotal	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%
TOTAL	2,206,837	100.0%	779,218	100.0%	2,864,646	100.0%	1,129,399	100.0%	2,641,314	100.0%	3,398,913	100.0%

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%
Mpumulanga	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%
Subtotal	2,092,348	100.0%	323,608	100.0%	2,367,677	100.0%	842,756	100.0%	2,128,789	100.0%	1,469,701	100.0%
Unallocated by province												
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	-
Subtotal	114,489	-	455,610	-	496,969	-	286,643	-	512,525	-	1,929,212	-
Total	2,206,837	-	779,218	-	2,864,646	-	1,129,399	-	2,641,314	-	3,398,913	-

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	Mpuma- langa	Northern Cape	Northern Province	North West	Western Cape	Prov Total	National Total	Local Gov Share	Channel	
CURRENT TRANSFERS															
98/99	Trad Subs.	1	-	-	-	-	-	-	-	-	0	0	0	DCD - Direct to local government	
97/98	Trad Subs.	1	31	8	8	21	3	1	1	2	8	85	85		
98/99	IGG	2	-	-	-	-	-	-	-	-	0	1,024	1,024	DCD - Direct to local government	
97/98	IGG	2	125	66	156	151	69	22	74	68	173	903	903		
98/99	Other alloc	3	-	-	-	-	-	-	-	-	0	0	0	DCD - Direct to local government	
97/98	Other alloc	3	107	0	2	0	6	12	0	0	2	129	129		
98/99	Debt redemption	4	37	14	44	-	-	3	-	3	28	0	129	129 DCD - Direct to local government	
97/98	Debt redemption	4	37	14	44	-	-	3	-	3	28	0	129	129	
98/99	R293 towns	5	130	27	0	564	32	0	123	74	0	951	0	951 Conditional grant to Provinces	
97/98	R293 towns	5	121	25	0	523	30	0	114	69	0	882	0	882	
98/99	DWAF	6	-	-	-	-	-	-	-	-	0	494	494	DWAF	
97/98	DWAF	6	-	-	-	-	-	-	-	-	0	493	493		
98/99	DLA	7	-	-	-	-	-	-	-	-	0	26	26	DLA - Direct to local government	
97/98	DLA	7	-	-	-	-	-	-	-	-	0	0	0		
98/99	Disaster fund	8	-	-	-	-	-	-	-	-	0	0	0	DCD	
97/98	Disaster fund	8	-	-	-	-	-	-	-	-	20	0	0	20	
98/99	Transitional fund	9	43	12	27	28	13	6	12	11	30	181	0	181	Conditional grant to Provinces
SUBTOTAL	98/99											1,132	1,673	2,805	
	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%
Total	2805									
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	Mpuma- langa	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

	1998/99 Rm	% of national revenue	1999/00 Rm	% of national revenue	2000/01 Rm	% of national revenue
OPERATING TRANSFERS						
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

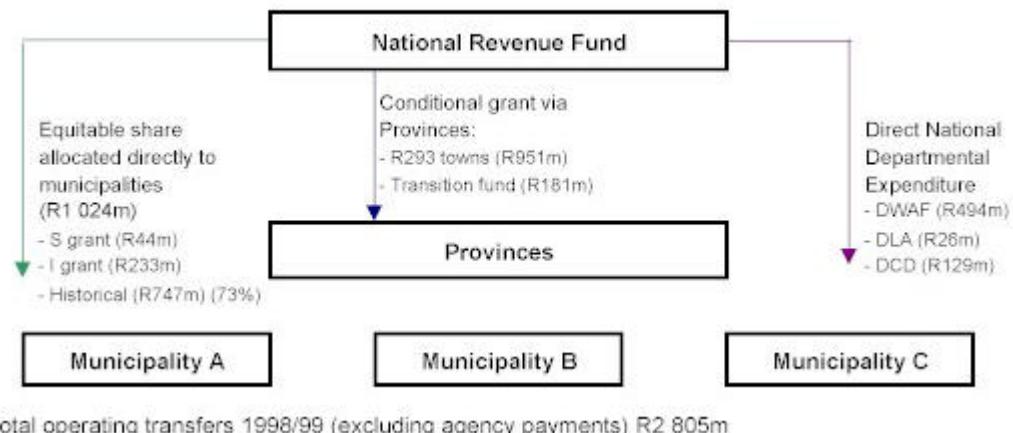


Figure 2: Operating transfers to Local Government - End State (by 2004/5)
(1998/99 Rands)

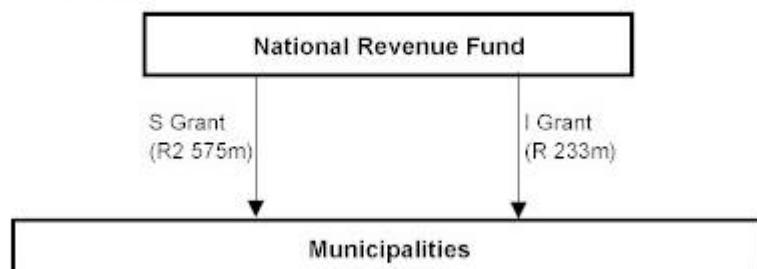
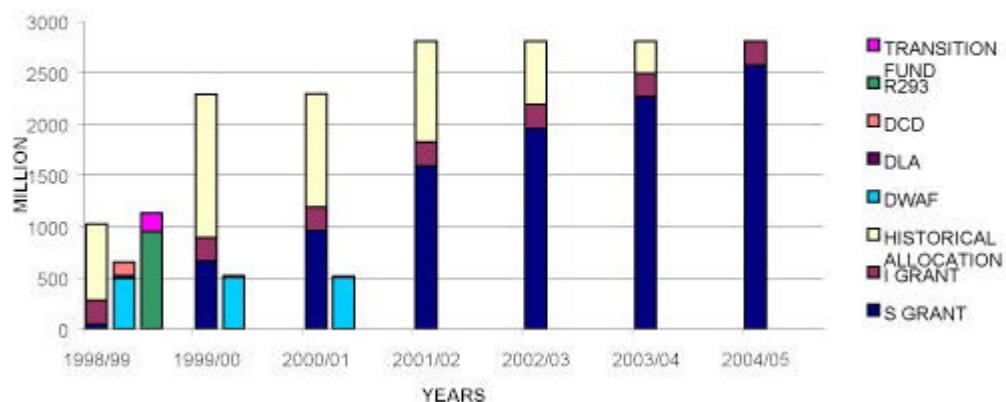


Figure 3: Evolution of transfers to local government 1998/99 - 2004/5
(1998/99 Rands)



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.):

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

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

1995/96 R`000	1996/97 R`000	1997/98 R`000
2,206,837	2,864,646	2,641,314

Total payments and budgeted allocations for capital expenditure:

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

Total payments for current (**operating**) expenditure:

1995/96 R`000	1996/97 R`000	1997/98 R`000
3,380,552	4,179,488	3,813,185

Total payments for **capital expenditure**:

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

“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:

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

Transfers for municipal services

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

	1995/96 R`000	1996/97 R`000	1997/98 R`000
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
TOTAL	2,033,283	2,270,064	2,044,189

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 R`000	1996/97 R`000	1997/98 R`000
DWAF	114,489	496,969	492,525
ESCOM	218,000	241,000	99,000
Disaster fund			20,000
TOTAL	332,489	737,969	611,525

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

5.3.2 “Traditional” subsidies

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

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 R'000	1996/97 R'000	1997/98/ 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
TOTAL	756,487	1,103,268	3,351,232

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 Presidential 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 R`000	1996/97 R`000	1997/98 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:

1995/96 R`000	1996/97 R`000	1997/98 R`000
557,490	576,573	244,832

APPENDIX A

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.

Appendix C

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										
Agency payments											
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
Sub-total	205,583	65,163	262,254	89,217	42,907	17,128	162,273	69,735	119,895		1,034,155
Subsidies to former white municipalities											
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
Sub total	6,935	23,967	12,889	8,912	1,259	7,944	7,586	10,700	1,604		81,796
Explicit transfers											
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
Sub total	427,792	571,234	188,091	234,103	136,907	127,065	362,031	200,416	45,342	500	2,293,481
Implicit transfers											
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											
Sub total	504	1,589	6,259	4,297	16,174	6,727	3,504	1,466	659	787,599	828,778
TOTAL	640,814	661,953	469,493	336,529	197,247	158,864	535,394	282,317	167,500	788,099	4,238,210

* 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 R'000	KZ/Natal R'000	Western C R'000	Free State R'000	Northern F R'000	Mpumalan R'000	Eastern C R'000	North Wes R'000	North C R'000	Unalloc R'000	TOTAL R'000
<i>Agency payments</i>											
Health	205,583	41,817	153,598	86,994	42,907	15,992	140,180	36,900	38,877		762,848
Social Services				1,000							1,000
*Transport		23,346	56,531	1,223		86	22,093	9,200	79,388		191,867
Sub-total	205,583	65,163	210,129	89,217	42,907	16,078	162,273	46,100	118,265		955,715
<i>Subsidies to former white municipalities</i>											
Fire Brigade	4,960	11,596	4,500	4,000	1,259		6,000		682		32,997
Library Services	35	12,371	4,589			5,200	836		447		23,478
Disaster Management	1,840					750					2,590
Sub total	6,835	23,967	9,089	4,000	1,259	5,200	7,586		1,129		59,065
<i>Explicit transfers</i>											
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		16,036	60,133	61,852	115,000	73,852			559,591
Service of loans	82,792	50,683		29,561			27,100		200		190,336
Sport & Recreation							747				747
Debt redemption	44,000		28,000	14,000			37,000	3,000	3,000		129,000
**Other		201,138	2,482	16,511			73,597	22,120	7,541		323,389
Sub total	420,392	571,234	162,543	150,030	98,007	111,465	345,431	136,139	38,042		2,033,283
<i>Implicit transfers</i>											
DWAF										114,489	114,489
*** ESCOM										218,000	218,000
Disaster Fund											
Sub total										332,489	332,489
TOTAL	632,810	660,364	381,761	243,247	142,173	132,743	515,290	182,239	157,436	332,489	3,380,552

* 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 R'000	KZ/Natal R'000	W Cape R'000	Free State R'000	Northern P R'000	Mpum R'000	Eastern C R'000	North West R'000	North C R'000	Unalloc R'000	TOTAL R'000
<i>Agency payments</i>				5,073							5,073
Health											1,050
Social Services						1,050					1,050
Transport			47,052					23,635	1,630		72,317
Sub-total			52,125			1,050		23,635	1,630		78,440
<i>Subsidies to former white municipalities</i>											
Fire Brigade						2,744		10,700			13,444
Library Services	100		3,800	4,912					475		9,287
Disaster management											
Sub total	100		3,800	4,912		2,744		10,700	475		22,731
<i>Explicit transfers</i>											
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
Sub total	7,400		25,548	84,073	38,900	15,600	16,600	64,277	7,300	500	260,198
<i>Implicit transfers</i>											
DWAF	504	1,589	6,259	4,297	16,174	6,727	3,504	1,466	659	455,110	496,289
ESKOM											
Disaster fund											
Sub total	504	1,589	6,259	4,297	16,174	6,727	3,504	1,466	659	455,110	496,289
TOTAL	8,004	1,589	87,732	93,282	55,074	26,121	20,104	100,078	10,064	455,610	857,658

* 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									
Agency payments											
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
Sub-total	216,573	44,761	287,855	120,956	25,583	82,456	197,145	76,870	103,942		1,156,141
Subsidies to former white municipalities											
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
Sub total	21,127	23,860	12,642	6,971	1,259	18,769	26,122	11,360	1,634		123,744
Explicit transfers											
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
Sub total	413,489	879,252	312,066	275,424	269,407	119,076	463,808	237,304	82,218		3,052,044
Implicit transfers											
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											
Sub total	290	2,155	4,696	16,097	42	4,746	3,233		3,386	1,024,612	1,059,257
TOTAL	651,479	950,028	617,259	419,448	296,291	225,047	690,308	325,534	191,180	1,024,612	5,391,186

* 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	Mpum	Eastern C	North Wes	North C	Unalloc	TOTAL
	R`000										
Agency payments											
Health	211,373	40,149	170,324	85,395	25,583	54,456	185,016	38,360	34,250		844,906
Social Services			400								400
*Transport	900	4,612	74,773	32,900		26,950	12,129	8,245	68,027		228,536
Sub-total	212,273	44,761	245,497	118,295	25,583	81,406	197,145	46,605	102,277		1,073,842
Subsidies to former white municipalities											
Fire Brigade	18,129	11,596	4,482	5,000	1,259		6,000	2,200	682		49,348
Library Services	35	12,264	4,500	1,971		4,584	19,372		411		43,137
Disaster Management	2,863					1,449	750		66		5,128
Sub total	21,027	23,860	8,982	6,971	1,259	6,033	26,122	2,200	1,159		97,613
Explicit transfers											
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		30,875	50,146	24,702	120,000	67,327			863,782
Service of Loans	136,046	50,683		392			27,100		241		214,462
Sport & Recreation				36		107	14,433				14,576
Debt redemption	44,000		28,000	14,000			37,000	3,000	3,000		129,000
**Other			90,365	67,040	26,119	4,570	45,150		8,910		242,154
Sub total	336,389	772,415	201,057	175,237	150,683	90,206	368,383	138,411	37,283		2,270,064
Implicit transfers											
DWAF										496,969	496,969
***ESCOM										241,000	241,000
Disaster Fund											
Sub Total										737,969	737,969
TOTAL	569,689	841,036	455,536	300,503	177,525	177,645	591,650	187,216	140,719	737,969	4,179,488

* 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 R'000	KZ/Natal R'000	W Cape R'000	Free State R'000	Northern P R'000	Mpum R'000	Eastern C R'000	North West R'000	North C R'000	Unalloc R'000	TOTAL R'000
<i>Agency payments</i>											
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
Sub-total	4,300		42,358	2,661		1,050		30,265	1,665		82,299
<i>Subsidies to former white municipalities</i>											
Fire Brigade						12,736		9,160			21,896
Library Services	100		3,660						475		4,235
Disaster management											
Sub total	100		3,660			12,736		9,160	475		26,131
<i>Explicit transfers</i>											
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
Sub total	77,100	106,837	111,009	100,187	118,724	28,870	95,425	98,893	44,935		781,980
<i>Implicit transfers</i>											
DWAF	290	2,155	4,696	16,097	42	4,746	3,233		3,386	286,643	321,288
ESKOM											
Disaster fund											
Sub total	290	2,155	4,696	16,097	42	4,746	3,233		3,386	286,643	321,288
TOTAL	81,790	108,992	161,723	118,945	118,766	47,402	98,658	138,318	50,461	286,643	1,211,698

* 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	
Agency payments												
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	
Sub-total	220,001	56,488	302,696	93,790	27,480	71,055	216,400	51,791	110,959		1,150,660	
Susidies to former white municipalities												
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	
Sub total	10,220	20,787	11,499	20,465	1,259	31,386	31,372	2,200	3,093		132,281	
Explicit transfers												
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	
Sub total	411,927	997,173	304,114	223,052	340,466	189,618	556,122	325,455	118,282	500,000	3,966,209	
Implicit transfers												
***DWAF										1,921,737	1,921,737	
**** ESCOM										99,000	99,000	
Disaster fund										20,000	20,000	
Sub total										2,040,737	2,040,737	
TOTAL	642,148	1,074,448	618,309	337,307	369,205	292,059	803,894	379,446	232,334	2,540,737	7,289,887	

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

* Includes agency fees and vehicle registration

** Settlement assistance, land tenure rights and resorts.

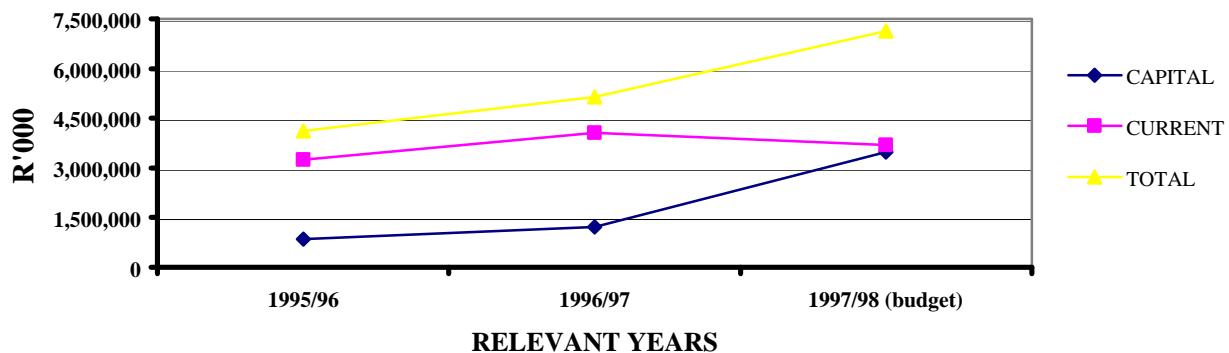
CAPITAL TRANSFERS TO LOCAL GOVERNMENT 1997/98 BUDGET											TABLE 9
Function/Dept	Gauteng R'000	KZ/Natal R'000	W Cape R'000	Free State R'000	Northern P R'000	Mpum R'000	Eastern C R'000	North West R'000	North C R'000	Unalloc R'000	TOTAL R'000
<i>Agency payments</i>											
Health			5,000	10,616							15,616
Social Services	3,000					2,100		8,100			13,200
Transport			45,000	2,000					1,973		48,973
Sub-total	3,000		50,000	12,616		2,100		8,100	1,973		77,789
<i>Subsidies to former white municipalities</i>											
Fire Brigade						27,916			1,400		29,316
Library Services	2,075		3,535	12,280					475		18,365
Disaster management											
Sub total	2,075		3,535	12,280		27,916			1,875		47,681
<i>Explicit transfers</i>											
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
Sub total	209,662	322,974	100,758	118,470	152,102	84,835	166,300	185,200	81,719	500,000	1,922,020
<i>Implicit transfers</i>											
**DWAF										1,429,212	1,429,212
ESKOM											
Disaster fund											
Sub total										1,429,212	1,429,212
TOTAL	214,737	322,974	154,293	143,366	152,102	114,851	166,300	193,300	85,567	1,929,212	3,476,702

*Settlement assistance, land tenure rights and resorts.

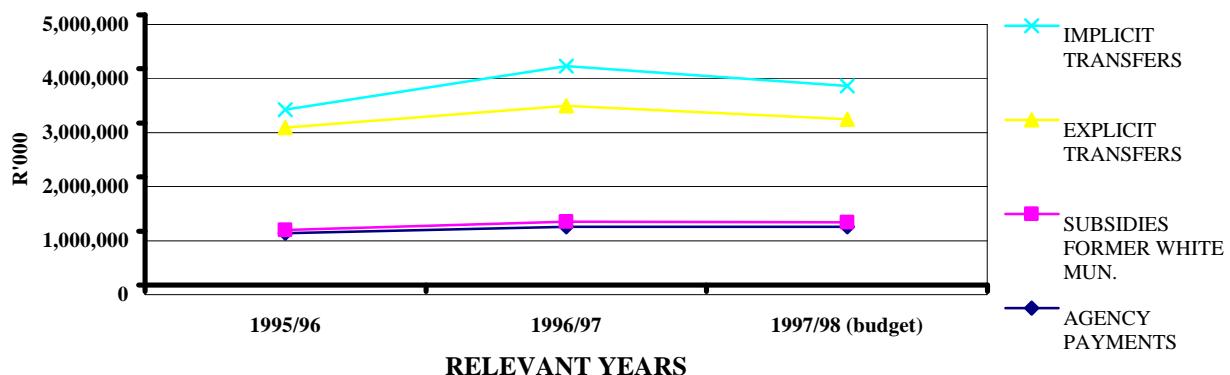
** From the amount budgeted for 1996/97 financial year DWAF had an unspent amount of R715m which it wanted rolled over to the 1997/98 financial year. The Department of State Expenditure had made no final decision on this amount at the time of writing this report.

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

AGGREGATE TRANSFERS TO LOCAL GOVERNMENT



OPERATING GRANT TRANSFERS TO LOCAL AUTHORITIES



CAPITAL GRANT TRANSFERS TO LOCAL AUTHORITIES

