Principles and practice of national and sub-regional fiscal policy in South Africa's intergovernmental fiscal relations (IGFR) system: A review and analysis of trends

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Introduction

In 1994 South Africa held its first democratic elections and emerged from over 300 years of white minority rule. Firstly, under Dutch/British colonialism and, from 1910 to 1994, under successive white minority governments that evolved into the internationally condemned apartheid system. Today South Africa is a constitutional democracy with a bicameral parliament and an executive president elected by parliament.

South Africa’s system of intergovernmental fiscal relations (IGFR) did not evolve organically as is the case with other federal nations that came into existence as part of a political agreement between relatively independent and economically self-sufficient regional states. In South Africa none of the provinces existed as self-sufficient entities before 1994. The current decentralization and the intergovernmental fiscal relations system was the outcome of protracted national negotiations in the Constituent Assembly that led to the demise of white minority rule, the end of apartheid and, the emergence of a democratic state in which the constitution is the supreme law of the land. The constitution (1996) defines South Africa as “one sovereign, democratic state” with three spheres of government: national, provincial and local government with relative degrees of autonomy. There are nine provinces, each with its own legislature, premier and executive councils and, 283 local governments divided into three categories: the metropolitan (category A with 8 X), the local municipalities (category B with 223) and, the district municipalities (category C with 44)[1].

The Constitution in Chapter 3 makes provision for intergovernmental relations to be mediated by prescribed principles of cooperative governance and legislation.

South Africa's bicameral parliament consists of a 400-member National Assembly elected by proportional representation and the National Council of Provinces (NCOP) whose members are indirectly elected representatives of the nine provinces (See map and Table 1A in the Appendix). The South African Local Government Association (SALGA) consists of representatives from the two hundred and eighty-three municipalities; it represents local government at all intergovernmental fora.

Chapter Thirteen of the Constitution provides for a Financial and Fiscal Commission that is required to make recommendations and give advice on intergovernmental fiscal relations (IGFR) to the Minister of Finance in particular and, Government in general.

South Africa is made up of many different population groups,

[1] These numbers are likely to have since changed as the Municipal Demarcation Board is currently undertaking a re-demarcation process. The numbers change frequently as a result of boundary changes brought about by legal or popular challenges to existing demarcation boundaries.

languages and cultures. In 2011, the statistics agency, Statistics South Africa (StatsSA), estimated that South Africa's population was 50 586 757 people. Of this total Africans[2] are in the majority at 40 206 275 or 79.5%. The white population is 4 565 825 (9.0%), the coloured population, 4 539 790 (9.0%) and, the Indian/Asian population at 1 274 867 (2.5%). Of the total population females make up 52% and males 48%.

Given the history and background presented above any review and analysis of South Africa's IGFR system in general and sub-regional tax policy in particular has to take account of the current political economy of the country. Since the advent of democracy in 1994 the South African economy has been significantly transformed. The lifting of international economic sanctions imposed against the apartheid government provided a major impetus to the transformation agenda. In addition, underpinning the transformation were structural macroeconomic and microeconomic reforms that introduced a relatively higher level of competitiveness. In this regard several new polices were instituted that had overarching economic impacts. Among others the fiscal deficit and inflation were brought under control, taxes and tariffs were cut and, exchange controls were gradually relaxed.

South Africa is often characterized as a middle-income emerging market with natural resources and relatively developed financial, legal, communications, energy and transport sectors and, it has a very large and developed stock exchange. South Africa's GDP grew by 3.7% in

[2] Population Race groups are defined in terms of the labour and employment legislation and, referred to as designated groups.

2002, 3% in 2003, 4.5% in 2004, and 5.3% in 2005. During this period the country recorded its most rapid and continuous economic growth in 21 years with a GDP that was ranked twenty-third in the world. GDP growth peaked at 5.6% in 2006 and declined to 5.5% in 2007, 3.6% in 2008, -1.5% in 2009. However, 2010 saw a recovery in growth to 2.9% of GDP (See Appendix, Table A4). GDP growth during this last period could be attributed in part to the massive and sustained public and private increase in infrastructure investment in public services between 2005 and 2009 in support of South Africa's hosting of the FIFA Soccer World Cup in 2010.

Preceding the build up to the 2010 World Cup, the central government was acutely aware of the low levels of infrastructure investment and began gradually increasing infrastructure expenditure from 2003 onwards (*National Treasury Budget Reviews, 2002 and 2003*). In 2005 the South African government budgeted about R80.5-billion[3] for infrastructure development up to 2008. Of this, about 40% was to be spent by electricity and transport public enterprises, for power generation, power distribution, rail transport, harbours and an oil pipeline. Fortunately, during this period projected revenues exceeded budget estimates. Despite lower tax rates across the board, government revenue increased to R456.7-billion in 2006/07, a significant 28% increase on the 2004/05 revenues (*National Treasury Budget Review: 2007*). As a result of economic growth and fiscal management South Africa's budget deficit dropped from 5.1% of GDP in 1994 to 0.5% in 2006. The increase in infrastructure investment for the period resulted

[3] *The South African currency is the South African Rand (R) and, at the time of writing the average range of the exchange rate for 2011/12 was about R7.50 to one US Dollar.*

in an increase in gross fixed capital formation (GFCF). From a low of 3.5% of GDP in 2002, GFCF increased dramatically to 10.2% in 2003, 12.9% in 2004, 11.0% in 2005, 12.1% in 2006, 14.0% in 2007 and 13.3% in 2008 (See Appendix, Table 4A). By 2009 GFCF went into decline again falling to a low of -3.7% (See Appendix, Table 5A).

For the 2012/13 to 2014/14 medium term expenditure framework (MTEF) government has projected to increase infrastructure spending to over R845 billion as part of an infrastructure investment drive towards rapid economic growth and sustainable employment creation (Hon. Pravin Gordhan, Minister of Fnance, 2012 Budget Speech, 22 February, 2012).

Despite the positive macroeconomic performance at the national level there remained wide socio-economic disparities and variations in economic performance among provinces and local municipalities. The socio-economic disparities among different geographic regions in South Africa have their origins in apartheid policies imposed to optimize the benefits from the use of cheap African labour in the exploitation of natural resource endowments located in varying degrees of abundance across all provinces. For example about 40 percent of GDP is produced in the Gauteng Province alone, while minimal commercial activity and poor infrastructure characterized the former apartheid-created tribal reservations or Bantustans. Many of these Bantustans were located in the provinces of the Eastern Cape, KwaZulu-Natal, Mpumalanga, Limpopo and the North West Province. However, in recent years new mining investments in platinum and coal in the latter two provinces have brought much-needed economic activities. Government pronouncements indicate that the envisaged new infrastructure investments will be targeted to unlock and realize the economic potential in these mineral resource rich areas. Of the budgeted R845 billion about R300 billion is earmarked for energy related infrastructure projects and, R262 billion for transport and logistics.

In the past the economic growth in South Africa was characterized as "jobless growth" as it has not had the desired positive impact on unemployment, poverty and inequality in the provinces and within municipal boundaries. Eighteen years into democracy addressing the historical socio-economic disparities within and between provinces and municipalities remains the greatest challenge facing the government of South Africa. Underpinning this challenge is the high rate of unemployment and income and wealth inequality in the South African economy.

Trends in unemployment and income inequality show that the African majority is most affected and, the highest rates of unemployment and inequality can be seen in the provinces with large rural populations. (See Appendix, Tables 6A, 7A, 8A and 9A). In February 2012 Statistics South Africa's *Quarterly Labour Force Survey* (StatsSA, 2012) for 2011 reported that the narrowly defined overall unemployment rate for South Africa was 23.9% while the rate for the expanded definition of unemployment was 35.4% (for a full definition of unemployment see the footnote for Table 6A). The expanded definition of unemployment covers all unemployed and discouraged job seekers who had given up looking for work in the past four weeks before the survey interview because of reasons related to disillusionment, the costs of traveling, the absence of transport and personal circumstances. The demographic and provincial profiles of the unemployed (Table 6A) underscore the regional and racial nature of socio-economic disparity in South Africa.

In addition to unemployment the socio-economic disparities of poverty and income inequality by race group and sub-region further exacerbate the differences within and between provinces and municipalities. The Income and Expenditure Surveys (IES) (See Appendix Table 7A) conducted by StatsSA between 1995 and 2008 indicate a significant decline in the percentage of the population in provinces living below R283 per month. However, the data also serves to show the difference in the distribution of poor people between the richer urbanized provinces such as Gauteng and the Western Cape and the other poorer rural provinces. For example while the Eastern Cape saw a massive decrease in poor people from 50% to 29% of its population it was still much higher than the percentage in Gauteng that remained relatively constant going from 7% to 6% and in the Western Cape were it went from 9% to10%. It is important to note that most of the people living in these poorer rural provinces are African. Consequently, it is not difficult to see why income inequality indicators from a study by *Liebbrandt et al (2008)* show that per capita income inequality as represented by the gini coefficient for the African population rose from 0.54 in 1993 to 0.60 in 2000 and, to 0.62 in 2008 (See Appendix Table 8A and 9A). The *Leibbrandt et al (2008)* study showed that overall South Africa remained one of the most unequal economies in the world with the gini coefficient increasing from 0.66 in 1993 to 0.68 in 2000 and, to 0.70 in 2008.

It is within the context of the past history and the context of the current political economy that South Africa's intergovernmental fiscal relations system in general and sub-regional tax policy can be reviewed and analyzed.

The context of intergovernmental fiscal and financial relations

Although South Africa is not a federal state in the conventional sense it mediates the political, fiscal and financial relationships among the three spheres of government through a system of intergovernmental fiscal arrangements that contain a number of different elements defined in the Constitution (1996) and given expression in various acts of parliament (Intergovernmental Fiscal Relations Act, 1997, the Intergovernmental Relations Framework Act, 2005, the Public Finance Management Act (PFMA), 1999 and, the Municipal Finance Management Act (MFMA), 2002. The intergovernmental fiscal relations (IGFR) system rests on the institutional arrangements for the expenditure and revenue raising assignments of the three spheres of government. In particular, legislation determines the powers and functions that each sphere has in executing its expenditure and revenue raising assignments.

In keeping with the requirements of the constitution[4] and the

[4] *The Bill of Rights in the Constitution prescribes that access to basic services is a fundamental right to which everyone is entitled. Certain rights must be subject to progressive realization, as governments must operate within available resources. Chapter 13 Section 214 (1) and (2) a-j and Section 227 (1) of the Constitution prescribes that local government and each province is entitled to an equitable share of revenue raised nationally and, that equitable shares include an entitlement to enable the provision of basic services by provinces and local governments and, that the allocations should take account of fiscal capacity, disparities and economic efficiency.*

Intergovernmental Fiscal Relations Act (1997) each sphere of government is entitled to an unconditional equitable share of nationally collected revenue to meet basic services and, an equitable share directed toward the provision of other services besides basic services. In addition provincial and local governments are entitled to other unconditional and conditional allocations out of the national share. Provincial and local governments also have access to non-equalized own revenues under arrangements prescribed in national legislation. In addition provincial and local governments have access to other equalization grants from national government's equitable share for nationally determined programmes.

The different elements that constitute South Africa's IGFR system can be assessed against what *Anwar Shah (1994)* refers to as best IGFR practice principles in nations with multiple levels of government. These principles include fiscal autonomy of sub-regional governments; revenue sharing for fiscal equity; formula driven rather than discretionary grants; transparent processes for determining grants; unconditional major grants; sub-regional accountability for expenditures; avoidance of bailouts; norms and costs as elements of the grant formula; macroeconomic management; sub-regional revenue raising powers and, sub-regional government financial management. These principles, and how they apply to South Africa, are discussed below.

A central priority of all governments is to provide basic services to all citizens within the constraint of available resources. In South Africa this objective is mandated in the Constitution (1996) and is a fundamental responsibility of government. Rights to which all citizens are entitled are in areas such as housing, health, social security, and education. Responsibility for the delivery of such services are shared amongst the different spheres of government, with each sphere of government mandated with certain powers and charged with fulfilling its assigned functions.

The Constitution sets out the broad requirements that fiscal and financial arrangements must satisfy. These include a set of responsible national, provincial and local governments, constitutional provisions that set out norms and standards of individual equity and the obligation of the state to achieve them, the existence of an institution that can advise, from an arms-length perspective, on long-run structural matters without the constraints of day-to-day policy and budgetary concerns and, perhaps most importantly, a real sense of national purpose.

Under the Constitution and other legislation, South Africa's national government has over-riding responsibility for the management of the country's affairs and shares responsibility with provincial and local governments for the provision of public services and the collection of revenues. National government mandates appropriate essential or minimum levels, norms and standards of services. Provincial or local governments are responsible for delivering most of the range of public social services, which fall in the areas of education, welfare, and health, some roads, transport, and housing. Local governments carry responsibility for the provision of local infrastructure and basic services such as sanitation and water reticulation and some roads and transport. The objective of intergovernmental fiscal and financial arrangements is to ensure that these inter-governmental responsibilities are carried out in the spirit of co-operation, fairness, and efficiency.

Designing a system of fiscal and financial arrangements to accomplish the objective of effective service delivery may be compromised by large vertical and horizontal fiscal imbalances in the IGFR system. Although a long-term strategy should be to increase the revenue-raising capacity of the sub-national spheres, in many developing and emerging market economies such as South Africa this is not likely to occur in the short term. The implication is that provincial governments are almost exclusively reliant on the equitable sharing of national revenue to deliver basic public social services to the levels stipulated by national norms and standards. This challenging task is made more difficult given that capacity to deliver effective services varies considerably across and within provinces because of backlogs in education, training and skills development inherited from the apartheid past and discussed earlier in this chapter. With over 90 per cent of provincial revenue coming from the equitable shares, the manner in which these shares are calculated assumes great significance for the equitable provision of services. By contrast local governments are expected to finance service delivery from own revenues.

The application of IGFR principles in South Africa will be discussed in the next section of this chapter. Thereafter, the structure of South Africa's current IGFR financial arrangements will be discussed. Sections analyzing current revenue and expenditure trends in South Africa's IGFR system will follow this discussion.

Application of IGFR principles in South Africa

It is an essential feature of all inter-governmental systems, federal and otherwise, that tensions exist and compromises must be made. These involve the resolution of the balance between decentralized provincial and local government responsibility for fiscal decisions on the one hand, and the achievement of national equity and efficiency objectives on the other.

Although decentralizing basic public service provision to provincial or local levels of government can enhance efficiency, these basic public services are at the same time among the most important policy instruments for achieving national equity goals in a country that has emerged from centuries of oppression. These services, coinciding with the socio-economic rights in the South African Constitution, explicitly stated or not, include the aim that citizens ought to have equal access to educational opportunities, health care and socio-economic security regardless of where they reside. In South Africa it is the role of the IGFR grant structure in particular, and fiscal and financial arrangements more generally, to facilitate the decentralization of fiscal responsibilities in a way that leads to efficient and responsible sub-national decision-making, while at the same time respecting national goals and objectives for equity in service provision and revenue collection.

Nations resolve IGFR tensions in very different ways, some more successfully than others. The experience of other decentralized states, especially the more established federal states, highlights a number of general features that characterize successful intergovernmental systems and set them apart from less successful ones. By success is meant that the decentralization of public service provision and revenue functions should achieve two main objectives. First, it should give sub-national governments responsible legislative authority to meet their own citizen's needs effectively. Second, it should ensure that citizens are provided with comparable access to basic social services regardless of their residence. This is what is referred to as fiscal equity. The case for fiscal equity is ultimately based on the notion of horizontal equity – the idea that all persons should be treated comparably by the public sector regardless of their location of residence. It reflects the common rights of citizenship that all citizens should enjoy.

In the South African case, the notion of autonomy is not applied in absolute terms, as the Constitution defines South Africa as "one sovereign, democratic state". However, efficient and politically accountable provision of public services and revenue assignment by sub-national governments is facilitated as they are allowed to exercise their responsibilities within the limits provided in the Constitution. Almost all decentralized states have some mechanism for the fair sharing of resources among provinces and/or municipalities through the equitable sharing of nationally collected revenues. Sharing entails affording sub-national government sufficient resources, such that each can provide comparable levels of public services at comparable levels of taxation efforts. In some cases grant schemes are used and implemented by a well-specified formula in other cases allocations are determined on a year-by-year discretionary basis by national government.

South Africa uses equalization formulae for both formula-based unconditional discretionary equitable shares and formula driven conditional grants. Formula-driven grants being more transparent, reliable and predictable, and less subject to short-term fiscal constraints and day-to-day political considerations than discretionary grants are significant in South Africa where provincial governments have relatively limited revenue-raising power and have little or no power to use debt as a method of insuring themselves against revenue fluctuations. In South Africa formula driven grants are as a result of Treasury regulations designed to be in place for intervals of several years so that risks of unexpected changes in revenue are borne by the national government.

Major transfers in South Africa, especially those that play an equalizing role, tend to be largely unconditional and non-matching. This ensures that sub-national governments are able to exercise discretion in their spending decisions. National government and the provinces bear joint responsibility for ensuring that public services in areas like education, welfare, and health satisfy national equity criteria. Political accountability is important for ensuring that public services are delivered in efficient ways and that they meet the needs of citizens. Therefore, explicit and unambiguous delineation of accountability relationships between the different spheres of government is critical. Accountability is codified in legal requirements enshrined in the Constitution, PFMA and the MFMA to ensure that provinces and local governments use transfers to deliver important social programmes and, adhere to national norms and standards. In recent years many provincial and local governments have come under severe criticism for mismanagement, over- and under-spending and, non-compliance with legal requirements, governance procedures and treasury rules and regulations. In 2011/12 financial year National Treasury had to intervene in the administration of provincial departments of education(Eastern Cape & Limpopo) and of health (same + Gauteng) where mismanagement and irregular practices were established. As to local governments , the Auditor General's Report for the 2011/12 Financial Year indicated that less than 15% of local governments received unqualified and clean audits with respect to finances and performance audit criteria in terms of the Municipal Finance Management Act (MFMA)

In the South African context the norms and costs of providing basic services inform not only the horizontal division of funds across provinces, but also the vertical division of the equitable share. Although it is the prerogative of the national government to determine the vertical division of national revenue, it must nonetheless be done in a way that satisfies the requirements set out in the Constitution. These involve ensuring that the provinces and municipalities can provide basic services up to the national norms and standards. On the other hand national government is ultimately responsible for macro-economic management and hence the implementation of fiscal and monetary policies that will facilitate its employment, price stability and growth objectives. National government's monetary management requires overseeing both the money supply and the level of public debt. The former is not an issue since it is the clear responsibility of national government. However the public debt includes not only national public debt but also any debt issued by the other spheres of government.

In South Africa the case for decentralizing expenditure functions is stronger than for decentralizing taxation functions given the mobility of tax bases and the fact that tax collection is a centralized function for national and provincial revenue. Provincial governments have limited taxing responsibility. This provincial tax responsibility includes the power to levy surcharges on certain national taxes at rates negotiated with other spheres of government.

The South African intergovernmental government system has significant functions decentralized to the local government level. While in many countries the relationship among governments is strictly hierarchical with National governments dealing with the provinces, who alone deal with their municipalities, the situation in South Africa is more complex; here the three spheres of government are required under the Constitution to govern co-operatively. The local government sphere operates within the policy and funding parameters set primarily by national government. Regardless of institutional relationships among the three spheres of government, it is clear that some of the general IGFR best practice principles outlined above with respect to transfers to the provinces also apply to local government grants. That is, these transfers are designed to achieve fiscal equity among municipalities, and are expected to be transparent and predictable.

Table I summarizes in broad terms South Africa's compliance with the principles of current financial IGFR best practice arrangements discussed above.

Table 1: South Africa's Compliance with IGFR Principles

IGFR Best Practice Principles	South Africa's Compliance
Fiscal autonomy of sub-regional governments	*Qualified autonomy guaranteed for some revenue and expenditure functions.*
Revenue sharing for fiscal equity	*Constitutionally guaranteed.*
Formula driven rather than discretionary grants	*Determined through IGFR consensus.*
Transparent processes for determining grants	*IGFR fora and institutions established for determining grants & IGFR processes.*
Unconditional major grants	*Only for provincial education & health functions & equitable shares for provincial & local governments operational expenditures.*
Sub-regional accountability for expenditures	*Established & monitored through IGFR legislation, regulations, parliamentary oversight & Auditor General's office.*
Avoidance of bailouts	*Set out in IGFR legislation & Treasury regulations.*
Norms & costs elements in the grant formula	*Norms agreed for certain functions (e.g. social security). Partially, for education. No costs.*
Prudent macroeconomic management	*National debt & fiscal management required in Chapter 13 of the Constitution and, in Treasury rules & regulations for monetary & fiscal policy.*
Sub-regional revenue raising powers	*Limited powers for provinces & property rates & user fees for local governments.*
Sub-regional government finance management	*Through the Provincial (PFMA) & Municipal (MFMA) Finance Management Acts.*

Source: Author

It is evident from Table 1 that in general, constitutional and institutional adherence to best practice principles underpin South Africa's exercise of intergovernmental relations in the application of decentralized fiscal and financial policy.

Structure of South Africa's current IGFR financial arrangements

The equitable division of national revenue lies at the heart of IGFR financial arrangements in South Africa. Chapter 13 of the Constitution presents the financial framework for the country. Sections 214 (1) and (2) read as follows:

> *(1) An Act of Parliament must provide for: – a) The equitable division of revenue raised nationally among the national, provincial and local spheres of government; (b) The determination of each province's equitable share of the revenue; and (c) Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made.*
>
> *(2) The Act referred to in subsection (1) may be enacted only after the provincial governments, organized local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered, and must take into account: –(a) the national interest; (b) any provision that must be made in respect of the national debt and other national obligations; (c) the needs and interests of the national government determined by objective*

> *criteria; (d) the need to ensure that the provinces and municipalities are able to provide basics services and perform the functions allocated to them; (e) the fiscal capacity and efficiency of the provinces and the municipalities; (f) developmental and other needs of provinces, local government and municipalities; (g) economic disparities*[5] *within and among the provinces; (h) obligations of the provinces and municipalities in terms of national legislation; (i) the desirability of stable and predictable allocations of revenue shares; and (j) the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.* (The Constitution, 1996: 124 –125).

With respect to the three spheres of government, the constitutional provisions relate to the provision of "equitable shares". Section 227 of the Constitution reads as follows:

> 227 (1), *Local government and each province: – (a) is entitled to an* ***equitable share*** *of revenue raised nationally to enable it to provide* ***basic services*** *and perform the* ***functions allocated*** *to it; and, (b) may receive other allocations from national government revenue, either conditionally or unconditionally. 227(2), Additional revenue raised by provinces or municipalities may not be deducted from their share of*

[5] *Disparities refer to the great socio-economic, demographic and geo-spatial inequalities that differentiate regions from each other. In the Australian IGFR grant system they are called disabilities.*

> *revenue raised nationally, or from other allocations made to them out of national government revenue.* (Ibid: 131).

From the foregoing, it is apparent that the Constitution approaches the requirement for equity in a particular manner and requires the mechanism of “equitable shares” to play a particularly important role in financing the equity among citizens that is to be achieved through provincial and municipal programmes.

From an examination of the constitutional provisions in the *Bill of Rights* with respect to equity and equitable shares certain conclusions may be drawn. Firstly, with respect to equity one can observe that; equality of all rights and freedoms is a fundamental principle in the *Bill of Rights* (Chapter 2, clause 9). Access to basic services is a fundamental right to which everyone is entitled. Basic services include access to adequate housing and health care services sufficient food and water, social security, and basic and further education, *Bill of Rights* (*Chapter 2*) of the Constitution. Every child has additional rights to services, as elaborated *in Section 28 of Chapter 2*. Certain rights must be subject to progressive realization, as governments must operate within available resources. (*(Ibid: 13-14).*

The key constitutional requirements for expenditure and revenue functions, governance responsibilities and, accountability considerations give South Africa’s IGFR system a specific structure. This structure is captured in stylized form in the framework presented in Table 2 below. The table presents a global stylized perspective of the institutional IGFR interrelationships between the three spheres. The framework presents the constitutional obligations and institutional arrangements within which intergovernmental fiscal relations are mediated. In the framework the place of the roles and responsibilities of provincial and local government can be viewed in the broader context of the constitutional obligations and institutional arrangements that define and determine intergovernmental fiscal relations among the three spheres of government.

Table 2: ***Stylized View of IGFR Institutional Arrangements in South Africa***

Expenditure shares in terms of *Bill of Rights & Section 214 (1 & 2)* of Constitution for:	**Governance & institutional responsibility of:**			**Considerations in terms of *Bill of Rights & Chapter 13, Section 214 (2) clauses (a to j)* of Constitution**
	National Government	**Provincial Government**	**Local Government**	
National Interests (e.g. Defense & foreign)	Sole	No	No	*Progressively provide basic services within available resources (Bill of Rights);* *Provincial & municipal fiscal capacity;* *Provincial & municipal efficiency;* *Economic disparities;* *Stability of allocations;* *Predictability of allocations;* *Need for flexibility.*
National Debt	Debt service & Deficit limits	Limited borrowing	Borrowing & bond issue	
Needs & interests of national government	Public service personnel, capital & operational, other	Agency role	As delegated	
Education	Higher, adult & technical; science & technology	Basic(primary and secondary) & early & childhood	No	
Health	Teaching hospitals & medical research	Basic & primary health care	Some primary health care	
Welfare services	Support for non-governmental agencies	Full	No	
Social Security	Full	Agency role	No	
Housing	Subsidies to province & municipalities	Concurrent with national and local	Concurrent & as delegated by national & province	
Water & Sanitation	Infrastructure grants to municipalities	No	Provision and service delivery	
Transport & Roads	Funding of transport parastatal, network & national roads	Concurrent with national & local, for provincial roads	Urban roads & transport	
Electricity	Generation through parastatal (Escom)	No	Local distribution	
Safety & Security	Full	No	Metro Police	
Emergencies	Concurrent	Concurrent	Concurrent	

Contingency Reserve	Sole	No	No	

(Source: Adapted from Petchey, MacDonald, Josie, Mabugu, Kallis: 2007)

Table (3) is a summary of the sources of revenues that are available for the three spheres of government. It is clear from this table that national government has responsibility for collecting the bulk of the taxes and levies that constitute the national revenue from which the pool of funds for IGFR transfers are determined.

Table 3: National, Provincial and Local Government Revenues

Categories	National	Provincial	Local Govt.
Taxes	Personal Income; Value Added Tax (VAT); Corporate tax; Tariffs	Some surcharges on existing taxes; Tourism levies; Fuel levies; Gambling.	Property rates; Motor vehicle license; other
User Charges	Electricity generation; Airport & harbour fees; Rail transport; National toll roads; other.	Hospital fees; School fees; Provincial toll roads; other.	Water & sanitation; electricity distribution; other.
Borrowing	Treasury bond issue; national & international financial markets and institutions.	As per legislation & approval of national minister of finance.	Municipal bond issue; national financial markets; Loans from Development Bank of Southern Africa (DBSA); other.

(*Source: Adapted from Petchey, MacDonald, Josie, Mabugu, Kallis: 2007*

Table (4) is a summary view of how the nationally collected revenue is shared amongst the three spheres of government. Together the Tables 2, 3 and 4 summarize the various statutory, economic and institutional considerations that go towards informing intergovernmental fiscal relations policy in South Africa.

Table 4: Revenue Shares for National, Provincial and Local Governments

Types of Allocation	National Share	Provincial Share	Local Govt. Shares	Total Expenditures
Unconditional	*NEA*	*PEA*	*LEA*	*ES*
Conditional Grants	*-PCG-LCG*	*PCG*	*LCG*	*CG=PCG+LCG*
Specific Purpose Grants	*-PSP-LSP*	*PSP*	*LSP*	*SP=PSP+LSP*

Total	*NEA - (PCG+LCG+PSP+LSP)*	*PEA+PCG+PSP*	*LEA+LCG+LSP*	*TNCR*

(*Source: Adapted from Petchey, MacDonald, Josie, Mabugu, Kallis: 2007)*

Where:
TNCR = *NEA - (PCG + LCG + PSP + LSP) +PEA +LEA*
NEA = National equitable allocation
PEA = Provincial equitable allocation
ES = Equitable shares
CG = Conditional grants
SP = Specific purpose grants
PSP = Provincial specific purpose grants
LSP = Local government specific purpose grants
PCG = Provincial conditional grants
LCG = Local government conditional grants
TNCR = Total nationally collected revenues

Current IGFR revenue trends in South Africa

Provinces in South Africa are much more dependent on the sharing of national revenue than sub-national governments in other decentralized countries. While provinces have a constitutionally guaranteed "equitable share" of national revenue, less that 5 per cent of their revenue may be described as strictly "own-source" revenue.

This provincial "fiscal dependency" creates a requirement both for the establishment of principles to guide the sharing of revenue between spheres of government and a mechanism to ensure that they are given appropriate consideration. The intergovernmental mediating functions of the Financial and Fiscal Commission (FFC) and other IGFR institutions become more important than would be the case in a situation in which the provinces were clearly capable of raising the revenue necessary to carry out the responsibilities assigned to them.

With respect to local government, the current situation stands in sharp contrast to that of provinces. Over 90 per cent of local government revenue is own-source revenue of which rates on the value of fixed property is the main source and essentially used to finance the cost of municipal services. Municipal rates are levied on the assessed value of fixed property.

Over one-half of local government revenue is received in the form of user fees, paid by citizens for electricity, water, sanitation and other services. The service responsibilities that do not yield income may be substantially more dependent on transfer revenue especially for poorer municipalities required under law to provide free basic services to indigent households. As municipalities increasingly fulfill responsibilities to all South Africans, the situation of under-funding from own-source revenue and the reliance on the equitable share of national revenue may increase.

There are considerable differences between municipalities. While some have an adequate tax base, there are many others that have insufficient tax bases to yield required revenues. In addition to property rates and user fees local governments were allowed to impose a Regional Services Council (RSC) levy on businesses. The RSC was terminated in 2006, thus reducing the tax burden on companies. Municipalities receive grants from national government to compensate for the loss of revenues from the RSC levies.

The reliance of the provincial sphere on national revenue suggests a significant “vertical fiscal imbalance”. However, the fact that the

Constitution explicitly provides mechanisms to promote the equitable division of national revenue mitigates this characteristic of the intergovernmental fiscal system in South Africa. In this regard it is fortunate that the country's overall revenue yield over the most recent past has provided a sufficient enough cushion to cope with the IGFR demands on nationally collected revenues.

In general the total nationally collected revenue (TNCR) trend over the recent past financial years (2003/04 to 2008/09) indicates a fairly robust yield from all sources of revenue. This is illustrated in Table 5 below. The table also shows clearly that centralized nationally collected revenues make up the bulk of total collected revenue.

Table 5: South African total tax revenue, 2003/04 – 2008/09

R Million	Nominal GDP[1]	Tax Revenue			
		Total South Africa	National	Provinces[2]	Local Government[3]
2003/04	1,303,906.8	**324,712.7**	302,442.6	3,306.6	18,963.5
2004/05	1,449,020.0	**381,909.1**	354,978.8	3,525.5	23,404.7
2005/06	1,613,812.2	**446,537.7**	417,195.7	4,337.1	25,004.9
2006/07	1,833,191.1	**519,035.0**	495,548.6	4,824.7	18,661.8
2007/08	2,081,624.9	**599,565.0**	572,814.6	5,398.3	21,352.1
2008/09	2,320,116.4	**657,679.8**	625,100.2	5,623.4	26,956.2
Percentage of Total South African Tax Revenue					
2003/04		**100%**	93.1%	1.0%	5.8%
2004/05		**100%**	92.9%	0.9%	6.1%
2005/06		**100%**	93.4%	1.0%	5.6%
2006/07		**100%**	95.5%	0.9%	3.6%
2007/08		**100%**	95.5%	0.9%	3.6%
2008/09		**100%**	95.0%	0.9%	4.1%
Percentage of GDP					
2003/04		**24.9%**	23.2%	0.3%	1.5%
2004/05		**26.4%**	24.5%	0.2%	1.6%
2005/06		**27.7%**	25.9%	0.3%	1.5%
2006/07		**28.3%**	27.0%	0.3%	1.0%
2007/08		**28.8%**	27.5%	0.3%	1.0%
2008/09		**28.3%**	26.9%	0.2%	1.2%

Source: South African Revenue Services, 2009, Revenue collection statistics

1. From South African Reserve Bank & Statistics South Africa
2. From National Treasury, Provincial Budgets & Expenditure Reviews
3. Local government numbers taken from the Local Government Budgets and Expenditure Review.
The financial year of the municipalities is from 1 July to 30 June of the following year. Provincial & National government financial year is from 1 April to 31 March.
The 2008/09 numbers are budgeted. The regional service council levies were abolished in 2006/07.

For the period , the South African Reserve Bank (SARB) and National Treasury reported trends showing that over 90% of total revenue was collected at the national government sphere accounting, on average, for 26% of GDP. For the same period provincial government's share of total revenue was about 1.% making up only 0.26% of GDP. For the period local government revenues were on average about 5% of total revenues and, 1.3% of GDP respectively.

The main reason for low provincial revenues is the constitutional limits placed on the tax powers of provinces (Constitution, 1996, Chapter 13, S228: 132). Provinces are not allowed to collect income tax, value added tax, general sales tax, rates on property, or customs duties. However, they are allowed to impose flat-rate surcharges on taxes, levies or duties imposed by national legislation except in the case of corporate income tax, value added tax, rates on property or customs duties. To clarify the limits of the provinces to impose taxes in 2001 an amendment to the Constitution (*Constitution of the Republic of South Africa Second Amendment Act, section 9 of Act No. 61 of 2001*). Was made tothe initial clause to read "*flat-rate surcharges on **the tax bases of** any tax, levy or duty that is imposed by national legislation, other than **the tax bases of** corporate income tax, value-added tax, rates on property or customs duties.*" This made it absolutely clear that provinces could only impose a surcharge on the tax bases of certain taxes but not, on the tax bases of corporate income tax, value-added tax; rates on property or customs duty.

The Provincial Tax Regulation Process Act of 2001 codified the constitutional limits to provincial taxing powers into law. Amongst other constraints the Act stipulated that a provincial tax may not materially and unreasonably prejudice national economic policies; economic activities across provincial boundaries; or the national mobility of goods, services, capital or labour across boundaries. Furthermore, the Act made the imposition of provincial taxes conditional on compliance with the principles of cooperative governance in Chapter 3 of the Constitution and, only after consensus in IGFR fora such as the Budget Council and, on the approval of the national Minister of Finance. The list of taxes available to the provinces and local government and the revenues obtained from them between 2003/04 and 2008/08 are listed in Table 6.

Table 6: **Provincial and local government tax revenue, 2003/04 – 2008/09**

R Million	**Provinces[1]**					**Local Government[2]**		
	Casino taxes	**Horse racing taxes**	**Liquor licenses**	**Motor vehicle licenses**	**Total provincial tax revenue**	**Property rates**	**Regional service levies**3	**Total local government tax revenue**
2003/04	650.8	103.4	14.4	2,538.0	**3,306.6**	13,980.2	4,983.3	**18,963.5**
2004/05	723.0	89.9	17.7	2,694.9	**3,525.5**	16,396.0	7,008.8	**23,404.7**
2005/06	916.4	92.3	23.2	3,305.2	**4,337.1**	17,401.0	7,603.9	**25,004.9**
2006/07	1,084.2	103.5	21.4	3,615.6	**4,824.7**	18,276.0	385.7	**18,661.8**
2007/08	1,265.4	120.8	24.1	3,988.0	**5,398.3**	21,256.9	95.2	**21,352.1**
2008/09	1,325.3	149.9	19.2	4,129.0	**5,623.4**	26,956.2	–	**26,956.2**

Source: South African Revenue Services, 2009, Revenue collection statistics
1). From Provincial numbers taken from the Provincial Budgets and Expenditure Reviews. The 2008/09 numbers are pre-audited.
2). Local government numbers taken from the Local Government Budgets and Expenditure Review. The financial year of the municipalities starts on 1 July to 30 June of the following year. The 2008/09 numbers are actual budgeted amounts.
3). Regional service levies were abolished in 2006/07.

In addition to the taxes listed in Table 6 a further set of regulations was enacted by parliament in November 2002 prescribing a set of the taxes and surcharges that provinces were allowed to impose with the authorization of the Minister of Finance. These included fuel levies and tourism levies amongst others. In the event very few provinces[6] took up the offer and provinces continue to remain dependent on transfers from national government. It is unlikely that provincial taxation will be expanded, since national collection systems remain the main focus of the South African Revenue Service (SARS).

The main sources and yields of nationally collected revenues are listed in Table 7. In fiscal year 2008/09 the South African Revenue Services (SARS) reported a collection of R657.7 billion in taxes. Table 7 shows that the main sources of total national tax revenue (R625.1billion) were from personal income taxes yielding R195 billion, corporate income tax R165 billion and, value-added tax R154 billion. To the national tax revenue provinces added R5, 623.4 million and local government R26, 956.2 million (see Tables 5 and 6).

Of all revenues collected by national government in the 2008/09 financial-year Personal Income Tax (PIT) made up 31.2% of the total, 8.4% of GDP witha nominal increase of 14.7% from 2003/04 to 2008/09. For the period PIT was the biggest tax contributor to national revenue . Corporate Income Tax (CIT) and Value Added Tax (VAT) [7]

[6] All provinces impose gambling taxes. Kwa-Zulu Natal, the Western Cape and the Eastern Cape impose a tourism bed levy. When the Western Cape attempted to impose a fuel levy surcharge it was met with great resistance and controversy and the Province scrapped the idea

[7] *South Africa levies a value-added tax (VAT) on companies for the sale ofservices at a standard rate of 14%. Some basic foods (beans, bread, cooking oil, eggs, fruit, lentils, milk and vegetables) are zero-rated. Services, including some* *financial services and public*

were the second and third largest contributors with CIT at 26.5%, 7.1% and 22.1% and, VAT at 24.7%, 6.7% and 13.9% respectively. Personal Income Tax is a progressive tax and rates are set annually in the budget speech. The statutory rates for the 2010/11 tax-year and the maximum marginal tax rates for the 2004/05 – 2009/10 period are presented in Tables A10 and A11 in the Appendix.

In his Budget Speech for the 2012/13 (22 February 2012) fiscal year, the South African Minister of Finance reported that following a decline in tax revenues for the 2010/11 and 2011/12 periods the revised estimate for 2011/12 is R739 billion. This is R10 billion higher than was projected in the 2011 MTBPS. The Minister also announced reforms that included the termination of the Secondary Tax on Companies[8] and the introduction of a dividend tax at the rate of 15%.

Taxes on mineral and other natural resources are taxed as part of corporate profits and dividends and mining tax laws have been subject to several reforms in recent years. Currently, the Mineral and Petroleum Resources Royalty Act (No 28 of 2008) that came into effect in 2010 governs mining companies. This Act gives effect to section 3(2) (b) of the Mineral and Petroleum Resources Development Act, Act No. 28 of 2002 (the MPRDA). In terms of this legislation the state is defined as the custodian of the nation's mineral and petroleum resources and, may determine and levy any fee or compensation.

are zero rated, though indirect export sales are not.

[8] *SARS defines STC as a tax on dividends declared by companies that are resident in South Africa. It is imposed on companies or close corporations and not on shareholders. STC was introduced in 1993 to encourage the reinvestment of profits and is governed by Sections 64B and 64C read with the definition of "dividend" in section 1 of the Income Tax Act 58 of 1962. It will be terminated in April 2012.*

Resource royalties or rents are not considered a tax but fair compensation for the permanent loss of non-renewable commodities. The MPRDA is perceived as bringing South Africa's mining laws within current international best practices.

Under the current mining tax dispensation gold–mining companies pay a special income tax and lease payments according to a formula based on the ratio of profits to the volume of gross sales. Since January 2009, gold mining companies are required to pay a royalty of 1.5% on revenues for exercising their mining rights. Other mining companies are taxed at the normal 28% corporate tax rate plus an additional 40% tax on remaining profits after deduction of the normal 28%.

Table 7: National Tax revenue by main revenue source, 2003/04 – 2009/10[1]

R million	Personal income tax (PIT)	Corporate income Tax (CIT)	Secondary Tax on Companies[2] (STC)	Value Added Tax (VAT)	Fuel Levy	Customs Duties	Specific excise duties	Other	Total Tax Revenue
2003/04	98 496	60 881	6 133	80 682	16 652	8 414	11 365	19 821	**302 443**
2004/05	110 982	70 782	7 487	98 158	19 190	13 287	13 068	22 027	**354 979**
2005/06	125 645	86 161	12 278	114 352	20 508	18 202	14 547	25 505	**417 196**
2006/07	140 578	118 999	15 291	134 463	21 845	24 002	16 369	25 505	**495 549**
2007/08	168 774	140 120	20 585	150 443	23 741	27 082	18 218	23 851	**572 815**
2008/09	195 115	165 378	20 018	154 343	24 884	22 852	20 185	22 325	**625 100**
2009/10	205 145	134 883	15 468	147 941	28 833	19 477	21 289	25 569	**598 705**
Percentage of Total									
2003/04	32.6%	20.1%	2.0%	26.7%	5.5%	2.8%	3.8% 6	6.6%	**100.0%**
2004/05	31.3%	19.9%	2.1%	27.7%	5.4%	3.7%	3.7%	6.2%	**100.0%**
2005/06	30.1%	20.7%	2.9%	27.4%	4.9%	4.4%	3.5%	6.1%	**100.0%**
2006/07	28.4%	24.0%	3.1%	27.1%	4.4%	4.8%	3.3%	4.8%	**100.0%**
2007/08	29.5%	24.5%	3.6%	26.3%	4.1%	4.7%	3.2%	4.2%	**100.0%**
2008/09	31.2%	26.5%	3.2%	24.7%	4.0%	3.7%	3.2%	3.6%	**100.0%**
2009/10	34.3%	22.5%	2.6%	27.7%	4.8%	3.3%	3.6%	$.3	**100.0%**
Nominal percentage increase from 2003/04 to 2008/09									
Cumulative	84.8%	90.6.6%	106.6%	50.7%	50.2%	51.9%	62.9%	14.0%	**68.7%**
Per year	13.1%	13.8%	15.6%	8.6%	8.5%	8.7%	10.3%	2.7%	**11.0%**
Percentage of GDP									
2003/04	7.6%	4.7%	0.5%	6.2%	1.3%	0.6%	0.9%	1.5%	**23.2%**
2004/05	7.7%	4.9%	0.5%	6.8%	1.3%	0.9%	0.9%	1.5%	**24.5%**
2005/06	7.8%	5.3%	0.8%	7.1%	1.3%	1.1%	0.9%	1.6%	**25.9%**
2006/07	7.7%	6.5%	0.8%	7.3%	7.3%	1.2%	1.3%	0.9%	**27.0%**

2007/08	8.1%	6.7%	1.0%	7.2%	1.1%	1.3%	0.9%	1.1%	**27.5%**
2008/09	8.4%	7.1%	0.9%	6.7%	1.1%	1.0%	0.9%	1.0%	**26.9%**
2009/10	8.4%	5.5%	0.6%	6.1%	1.2%	0.8%	0.9%	1.05 %	**24.5%**

Source: Source: Data for 2009/10 and percentage increase from 2010 Tax Statistics, National Treasury & South African Revenue Services (SARS): 46 of 150
1. Totals rounded to the nearest whole number.
*2. SARS defines STC as a tax on dividends declared by companies that are resident in South Africa. It is imposed on companies or close corporations and not on shareholders. STC was introduced in 1993 to encourage the reinvestment of profits and is governed by Sections 64B and 64C read with the definition of "dividend" in section 1 of the Income Tax Act 58 of 1962 (*see website: *http://www.sars.gov.za/home.asp?pid=3414)*

Some current IGFR Expenditure Allocation trends in South Africa
In Table 2 above and listed in column five, macroeconomic issues and other considerations are taken into account in the South African government's IGFR formula for equitable allocations to provincial and local governments. Among these considerations prominence is given to provincial and municipal fiscal capacity, efficiency and economic disparities. The provincial equitable allocation (PEA) is made up of the unconditional equitable share (ES) and any other conditional grants and specific purpose grants (SPG) from the national equitable allocation (NEA). The local government equitable allocation (LEA) consists of the unconditional local government equitable share (LES) for operational functions; the municipal infrastructure grant (MIG) for municipal infrastructure and, a capacity building (CB) grant for institutional support[9]. Table 4 illustrates the manner in which the national, provincial and local government allocations are made from total nationally collected revenues.

The provincial equitable share (PES) is an unconditional allocation to provinces in keeping with the principle of relative autonomy. Provinces receive the largest budget equitable shares because they are

[9] *The details of the principles, guidelines and, rules for implementing the IGFR in South Africa were published by the Department of Provincial & Local Government (DPLG) in the Practitioners Guide to the IGR System in South Africa, 2007. In 2002 National Treasury published details of the IGFR allocation formulae in Budget Guidelines (2002).*

responsible for implementing the major national social service functions such as education, health and housing. The provincial equitable share (PES) for every province is determined on the basis of a formula with six components *(National Treasury, Budget Review, 2000)*. Each component is given a policy weight between zero and one depending on the degree of importance attached to the component by policy-makers. Allocations in the formula are driven by a policy-weighted series of different population components and other factors and, can be written as:

$$PES = 0.5E_{p(\text{school age, enrolment ratio})} + 0.26H_{p(\text{proportion without medical aid})} + 0.14B_{p(\text{share of national population})} + 0.04Pov_{p(\text{provinces share of poor})} + 0.01EO_{(\text{share of total employee remuneration})} + 0.05\,Ins$$

Where:

- ***ES*** is the equitable share.
- ***p*** represents population.
- ***E*** is the education component determined by the population of school age (6-17 years) and the enrollment ratio.
- ***H*** is the health component determined by the proportion of population without medical aid.
- ***B*** is a basic allocation for all provinces based on each province's share of the national population.
- ***Pov*** represents each province's share of the national poor population defined as those who have incomes in quintiles 1 and 2 in the *Income and Expenditure Surveys (IES).*
- ***EO*** represents a province's economic output given as its share of total employee remuneration.
- ***Ins*** is the institutional component and is weighted equally for all provinces.

The policy weights for each component is assigned following consultation between national and provincial government policy-makers in various IGFR fora [See *Department of Provincial and Local*

Government (DPLG), Practitioner's Guide to the IGR System in South Africa: 2007][10].

The local government equitable allocation (LEA) is determined on the basis of a formula (*DPLG: 2007*) given as:

LEA = LES + MIG + CB

Where

- ***LEA*** is the local government equitable allocation.
- ***LES*** is the local government equitable share grant to fund municipal operations.
- ***MIG*** is a municipal infrastructure grant
- ***CB*** is capacity building grant for supporting institutional development in municipalities with little or no revenue raising capacity to fund institutional development.

The LES is defined as:

LES = BS + D + I + R $\pm$ ***C***

Where:

- ***BS*** is a component for the provision of basic services such as water, refuse removal, sanitation, electricity and environmental health care and, free basic services to poor households earning less than R800 per month,
- ***D*** represents a component for the development needs of municipalities and was set at zero on the recommendation of the FFC (2007/08) to avoid the risk of perverse incentives,
- ***I*** is an institutional support component to assist poor municipalities without revenue raising capacity to fund administration,
- ***R*** is a correction component for revenue raising capacity and measures the fiscal capacity of municipalities to raise own revenues from taxes, surcharges and user fees and,
- ***C*** is a general correction and stabilization factor.

[10] *The DPLG was subsequently renamed Cooperative Governance and Traditional Affairs (COGTA).*

Of all the factors in the LEA the municipal infrastructure grant (MIG) is the most significant. It is a conditional grant and allocations to municipalities are formula driven. The formula consists of percentage allocations for five different components representing different municipal infrastructure needs. The formula is summarized in the Appendix.

Based on the formulae presented above the nationally collected revenue is divided as required in the constitution and illustrated in Table 8. An example of the division of nationally raised revenue for 2008/09 – 2014/15 period is presented in Table 8.

Table 8: Division of nationally raised revenue, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R million	**Outcome**			**Revised estimate**	**Medium-term estimates**		
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039
Non-interest expenditure	581 560	690 068	738 914	814 554	879 977	953 024	1 030 539
Percentage increase	*19.0%*	*18.7%*	*7.1%*	*10.2%*	*8.0%*	*8.3%*	*8.1%*
Total expenditure	**635 953**	**747 197**	**805 141**	**891 199**	**969 365**	**1 053 830**	**1 139 579**
Percentage increase	*17.5%*	*17.5%*	*7.8%*	*10.7%*	*8.8%*	*8.7%*	*8.1%*
Contingency reserve	-	-	-	-	5 780	11 854	24 000
Division of available funds							
National departments	**289 236**	**345 366**	**355 189**	**383 747**	**412 368**	**446 220**	**478 828**
Provinces	**246 836**	**293 164**	**322 822**	**362 626**	**384 487**	**411 092**	**437 004**
Equitable share	201 796	236 891	265 139	291 736	309 057	328 921	349 351
Conditional grants	45 040	56 273	57 682	70 891	75 430	82 171	87 653
Local government	**45 487**	**51 537**	**60 904**	**68 180**	**77 342**	**83 858**	**90 707**
Equitable share[1]	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General fuel levy sharing	-	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
Total	**581 560**	**690 068**	**738 914**	**814 554**	**874 197**	**941 170**	**1 006 539**
Percentage shares							
National departments	49.7%	50.0%	48.1%	47.1%	47.2%	47.4%	47.6%
Provinces	42.4%	42.5%	43.7%	44.5%	44.0%	43.7%	43.4%
Local government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) and Joint Services Board levies for metros and district *municipalities. From 2009/10 the RSC levies replacement grant is only allocated to district municipalities. (Source National Treasury, Budget Review, 2012)*

Table 8 shows the latest (National Treasury, Budget Review 2012) division of national revenue allocations amongst the three spheres of government for the MTEF period 2012/13 to 2014/15. The total pool of funds available for each year of the period was estimated at R874.2 billion for 2012/13, R941.2 billion for 2013/14 and, R1 trillion for 2014/15. Of these funds national government will receive R31.2 billion, provincial governments will receive R19.4 billion and, local governments R5.3 billion.

For the 2011/12 period National Treasury (Budget Review 2012) reported that in aggregate provinces received 97.1% of their allocations in the form of transfers from national government. Municipal allocations were reported for 2010/11 (the municipal financial year begins in July) and indicated that 75% of municipal budgets were transfers from national and provincial governments. Metropolitan municipality budgets were made up of 81% own revenues while the budgets of the poorest municipalities were made up of less than fifty percent own revenues.

Provinces have the responsibility for providing education and health services and, some concurrent functions (with national and local governments) such as housing and some regional roads. In addition provinces have been drawn into the programmes for job creation through extended public works projects. Table 10 below shows the transfers to each province for the 2012/13 to 2014/15 MTEF. These transfers include allocations for the equitable shares and conditional grants.

Table 9: Total transfers to provinces, 2010/11 – 2014/15

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	47 460	53 016	53 815	56 624	60 095	63 347
Free State	20 211	22 497	22 909	24 051	25 410	26 682
Gauteng	58 919	65 094	65 647	70 168	75 618	81 160
KwaZulu-Natal	69 340	76 241	76 921	82 230	88 145	94 286
Limpopo	39 249	43 261	44 044	46 267	48 988	51 645
Mpumalanga	25 288	28 576	29 097	30 495	32 450	34 304
Northern Cape	9 090	10 216	10 681	11 337	11 960	12 605
North West	21 294	23 813	24 257	25 554	27 289	28 938
Western Cape	31 972	34 910	35 255	37 581	40 328	43 178
Unallocated	–	305	–	180	809	858
Total	**322 822**	**357 929**	**362 626**	**384 487**	**411 092**	**437 004**

Source: National Treasury 2012 Budget Review

In keeping with the thrust of government’s focus and policy objectives for the medium term expenditure framework (MTEF) the largest proportion of equitable share allocations are earmarked for education and health services while conditional grants are mainly targeted at education, health and housing infrastructure programmes.

Concluding remarks

In reviewing and discussing the context, structure and trends in South Africa’s intergovernmental fiscal relations it is clear that government expects to achieve continuous improvement in the level of basic services across the nation as resources permit. It must finance services in an equitable manner among provinces and municipalities. At the same time, the system must allow sub-national governments to develop the capacity to assume full responsibility for providing basic social services in their own jurisdictions.

The South African constitution requires that equitable shares to provinces and municipalities be based on an objective measure of the costs of delivering the mandated services taking into account an disparities in demography, geography and other socio-economic conditions (for example health, income inequality, unemployment, infrastructure backlogs) that affect the costs of delivering the services. Finally, the equitable shares should be continually balanced against the requirement to maintain viable national economic and fiscal policies in the face of great demand for services and global uncertainty.

The relationships among the three spheres of government – national, provincial and local – will evolve in the future, compelled by the need to nurture co-operative intergovernmental relations for establishing norms and standards for basic services. While the challenges appear daunting, the progress already made in South Africa's short history in building a democratic and fair society inspires hope and confidence that the vision of the Constitution and the commitment to a better life for all will be realized.

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