

Budget 2012 and Cities

Kenneth Brown | DDG Intergovernmental Relations | 2 March 2012



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Budget themes

- **Economic recovery is slow; projections revised downwards due to weaker domestic demand and lower export growth:**
 - Growth slows to 2.7% (2012), before rising to 4.2% (2014)
 - Inflation rises in short term (+ 6% in 2012) before declining
 - Current account deficit to average 4.4% over the MTEF
- **The fiscal framework remains tight**
 - Real growth in non-interest expenditure of 2.6% over MTEF
 - Budget deficit of 4.8% in 11/12, 4.6% in 12/13, 4% in 3/14 and 3% in 14/15
 - Debt stock and interest costs as percentage of GDP to stabilise over MTEF
 - Personal income tax relief of R9.5 billion, tax incentives for savings, tax relief for SMMEs
- **Additional spending plans over next three years**
 - R9.5 billion for the economic competitiveness and support package
 - R6.2 billion for job creation
 - R1 billion for national health insurance pilot projects
 - R3.9 billion for upgrading informal settlements

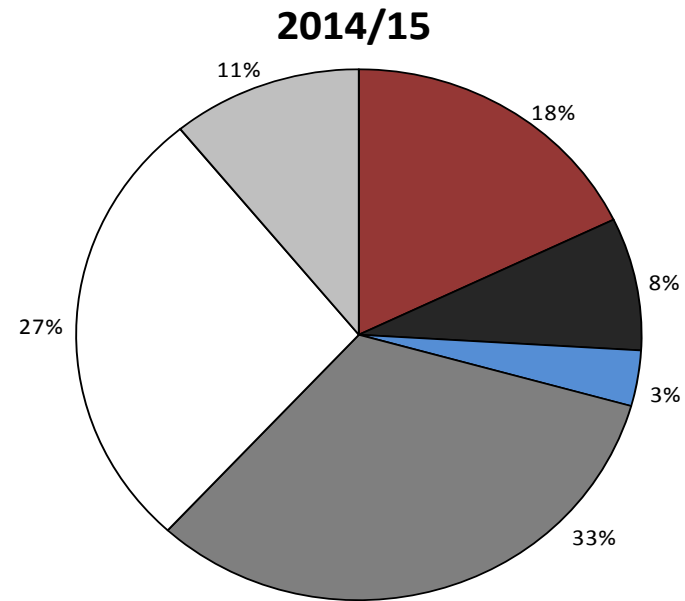
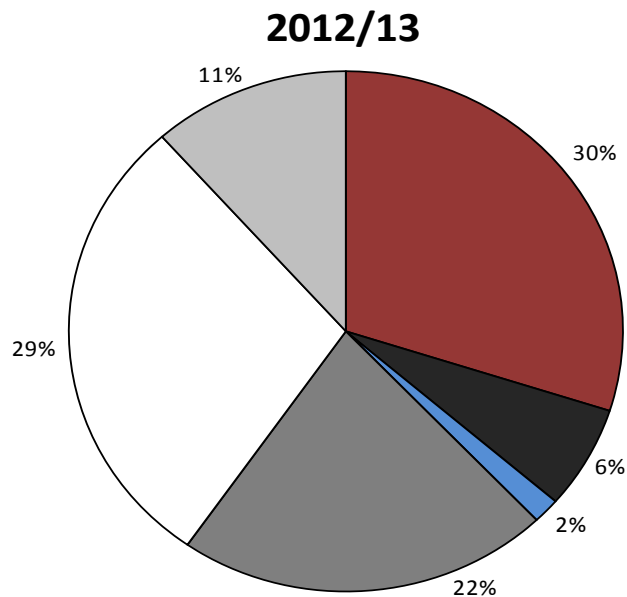
Fiscal policy

- Government is maintaining a sustainable, fair and counter-cyclical fiscal stance
- Composition of spending shifts from consumption to investment
- Stance creates opportunities for cities in managing their built environments:
 - Shifts in household consumption towards savings and investment can support housing programmes
 - Growth in fixed capital formation will impact on both human settlements and transport
 - Employment growth should assist to stabilize municipal finance
- **All spheres must actively seek efficiency improvements and value for money in their expenditures**

Government spending and division of revenue

- **Consolidated government spending grows on average by 8.2% per year over the MTEF compared with 11.1% between 2008/09 and 2011/12**
- **R83 billion added to the budget baseline over the 2012 MTEF including R27bn of budget reductions**
 - R9.2 billion from a general budget baseline reduction of 0.4%; and
 - R17.8 billion identified through a budget reprioritisation exercise
- **Division of revenue:**
 - **National government: R51.4 billion is added**
 - **Provincial government: R18.0 billion to the equitable share
R6.8 billion to conditional grants**
 - **Local government: R2.2 billion to the equitable share
R4.5 billion for conditional grants**
- **Expenditure is channeled towards infrastructure development, job creation, local government service delivery enhancement and economic support**

Composition of additional spending over the MTEF



■ Improved Conditions of Service

■ Local Government Delivery Enhancement

□ Other Priorities

■ Job Creation

■ Infrastructure

■ Economic Competitiveness Support Package

Local government spending plans

Main funding items to local government:

Equitable share:

- R300 million in 2012/13, R621 million in 2013/14 and R1.3 billion in 2014/15 for above inflation costs for basic services and to support councilor remuneration

Conditional grants (excluding budget reductions):

Direct transfers

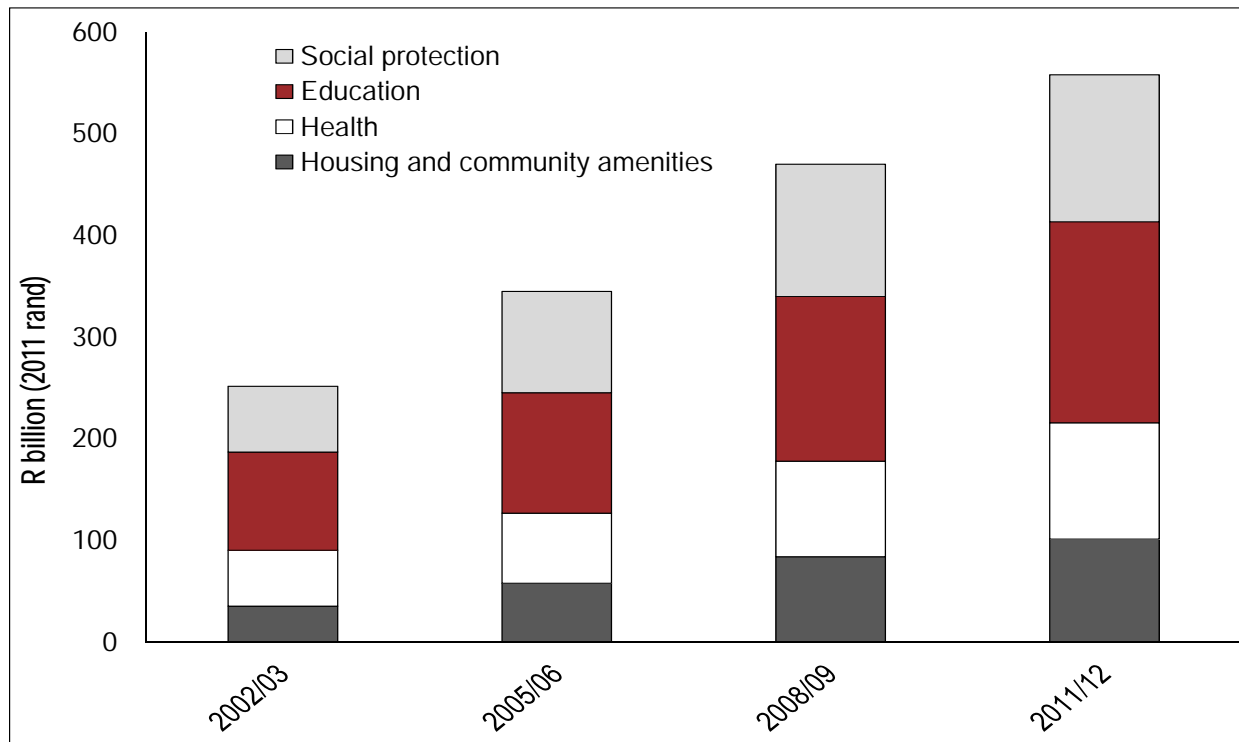
- R950 million and R1.93 billion in the two outer years for upgrading informal settlements
- R100 million and R200 million in the outer two years for public lighting as part of informal settlements upgrading
- R200 million in 2012/13, R200 million in 2013/14 and R200 million in 2014/15 to continue energy efficiency programmes in municipalities

Indirect transfers

- R382 million, R606 million and R896 million for bulk infrastructure necessary to connect more households to water and sanitation

Social wage

- **Broader social wage also benefit local government**
- **Social spending (social assistance, education, health, housing, recreation and community amenities) accounts for 58% of government expenditure, up from 49% a decade ago**



Infrastructure investment

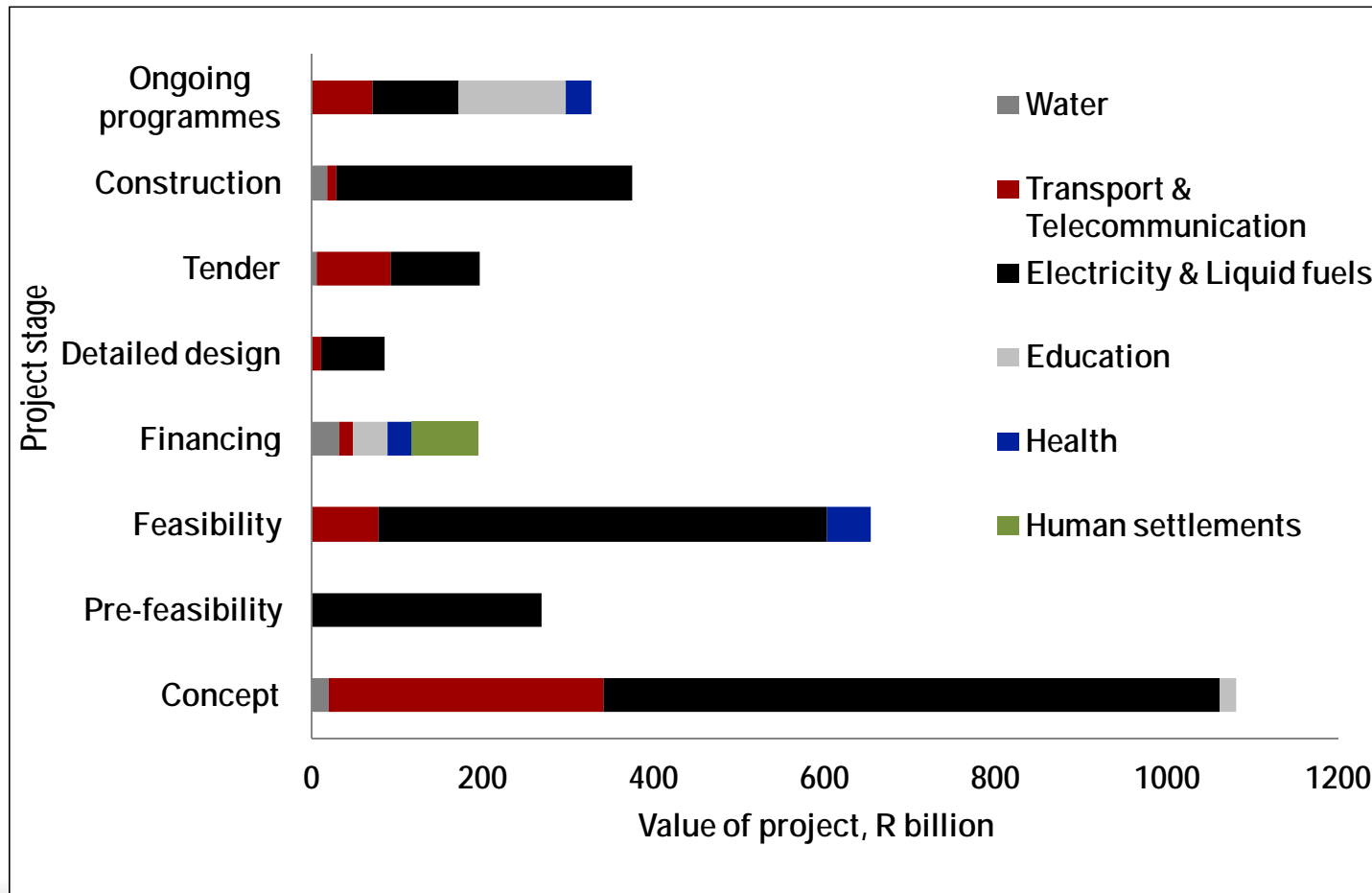
- Infrastructure investment to support long-term growth and development
- R844.5 billion in infrastructure expenditure over next three years
- R77.5 billion to be spent on low-income housing and upgrading

Public-sector infrastructure expenditure and estimates by sector, 2010/11 – 2014/15

R billion	2010/11 Budget	2010/11 Actual	2011/12	2012/13	2013/14	2014/15	MTEF Total	Percentage of total
Economic services	218.0	147.1	184.0	211.7	228.3	237.1	677.1	80.2%
Energy	102.8	52.2	73.1	91.7	100.2	104.3	296.2	35.1%
Water and sanitation	21.0	14.9	22.0	25.5	24.7	25.0	75.2	8.9%
Transport and logistics	80.5	68.6	75.3	81.2	88.6	92.3	262.0	31.0%
Other economic services	13.7	11.3	13.6	13.3	14.8	15.5	43.6	5.2%
Social services	36.9	25.6	34.9	38.6	48.5	53.1	140.2	16.6%
Health	8.5	6.7	7.7	8.1	13.1	14.8	36.0	4.3%
Education	6.8	6.1	8.1	10.9	14.5	15.3	40.7	4.8%
Community facilities	16.7	11.6	17.5	17.7	18.9	21.0	57.6	6.8%
Other social services	4.9	1.1	1.7	1.9	1.9	2.0	5.9	0.7%
Justice and protection services	3.1	3.0	3.2	3.4	3.5	3.7	10.6	1.3%
Central government and Financial services	2.0	1.7	3.8	7.9	3.5	2.8	14.2	1.7%
Financial services	0.1	0.3	0.7	0.7	0.7	0.9	2.4	0.3%
Total	260.1	177.8	226.6	262.3	284.6	297.6	844.5	100.0%
<i>% of GDP</i>	<i>9.4</i>	<i>6.5</i>	<i>7.6</i>	<i>7.9</i>	<i>7.9</i>	<i>7.4</i>		

Public infrastructure projects pipeline

- Infrastructure mega-project pipeline worth about R3.2 trillion by 2020



Improving infrastructure delivery

Financing infrastructure investment

- While financing can be raised for projects, it is important to ensure that there is the means to repay the costs that have been incurred. Only the taxpayer or user can do so
- A careful balance has to be found on who bears the burden of repayment. The sustainability of the fiscal deficit and debt levels, institutions' ability to invest, and of large tariff increases, all need to be balanced

Capacity improvement programmes

- The Infrastructure Delivery Improvement Programme
- **Cities Support Programme**
- The Neighborhood Development Programme
- Infrastructure development skills grant
- A municipal infrastructure support agency
- All levels of government benefit from training, leadership and mentoring programmes as well as experience on big projects such as the soccer world cup

Cities Support Programme

Aims to support and strengthen service delivery, management capacity and systems of SA cities

- Support spatial restructuring to position cities as engines of growth and development
- Focus on **core city governance capacity in the spatial planning and regulation, PFM and related systems** oriented towards integrated management of the built environment
 - Human settlements;
 - Public transport; and
 - Climate resilience.

Key subsidiary objectives

- Realign and expand the direct financing of cities, through the expansion of own revenues (including borrowing) and repositioning of fiscal transfers; and
- Strengthen mechanisms of citizen interface and oversight over municipalities



CSP designed to link inputs to outcomes

Inputs

Grants

Implementation support

National systems

City Support Programme

Objectives

1. Core city governance integrated, strategic planning and financing, poverty-focus, anti-corruption



2. Human Settlements Support
(Access to land & services)



3. Public Transport Support
(Mobility & urban efficiency)



4. Climate Resilience and Sustainability Support
(Resilient infra & systems)

Outcomes

Developmental cities

Liveable, integrated cities

Productive cities

Sustainable cities

Compact cities and a transformed urban spatial form



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The key shifts that CSP supports are:

BUILT ENVIRONMENT

- ❖ Transfer of human settlements and public transport functions to cities
 - promote a fundamental spatial restructuring
 - enhance service delivery especially to informal settlements
 - promote sustainable and inclusive public transport system that enhances urban mobility and increases usage
- ❖ Supporting cities to respond to climate change
 - mainstreaming climate resilience & sustainability in infrastructure planning and management
 - scale up mitigation and adaptation investments
 - lowering of water and energy demand and wastage

The key shifts that CSP supports are:

FINANCING

- ❖ A performance-focused incentive programme
 - Shift towards grant system that is more coordinated, rewards performance and encourage innovation in making tough choices now for long term benefits
 - Cities will be rewarded for thinking, planning and implementing in a transversal and integrated way

- ❖ Enhancing access to capital finance by cities, through
 - improved revenue management
 - more innovative use of available revenue sources
 - encouraging greater direct borrowings

The key shifts that CSP supports are:

GOVERNANCE

- ❖ Enhance integrated, strategic planning and financing
 - Orient development to support growth and reduce poverty
 - Protect the interests of poor and vulnerable groups in the development process
 - Address corruption
 - Enhance value for money
 - Improve transparency and accountability through better reporting on performance

CSP needs your leadership and commitment

PARTNERSHIP

- ❖ CSP is a commitment by National Government that will be followed up by regulatory and fiscal reforms to better integrate national policies and approaches across sectors.
- ❖ Requires a serious commitment from cities to improved performance
 - ❖ Quality of governance, strategy and planning by cities needs to improve significantly to take advantage of built environment reforms
- ❖ First step: CSP implementation needs assessment
 - ❖ Cities define their priority areas for participation and support

THANK YOU

