

## 4.3 Conditional grants

**Table 1.16: Summary of Conditional Grants by Grant**

R thousand	Outcome			Main appropriation	Adjusted appropriation	Revised estimate	Medium term estimates		
	Audited 2005/06	Audited 2006/07	Audited 2007/08				2009/10	2010/11	2011/12
				2008/09					
Vote 3	444,312	549,910	613,076	773,291	831,246	831,246	982,001	1,355,125	1,743,916
National School Nutrition Programme	191,072	202,039	192,694	252,901	307,856	307,856	419,185	659,233	829,669
Financial Management & Quality Enhancement	-	-	-	-	-	-	-	-	-
HIV/AIDS	17,864	13,085	17,411	24,495	24,495	24,495	25,882	27,454	29,101
Early Childhood Development	-	-	-	-	-	-	-	-	-
Provincial Infrastructure	235,376	291,786	332,598	384,249	387,249	387,249	536,934	668,438	885,146
Flood Reconstruction	-	-	-	-	-	-	-	-	-
Further Education & Training College SPG	-	43,000	70,373	111,646	111,646	111,646	-	-	-
Vote 4	109,242	95,106	88,287	161,069	221,832	221,832	126,196	158,947	196,790
Disaster Management (Drought relief)	21,946	-	-	-	50,000	50,000	5,000	-	-
Letsema Projects	-	-	-	-	-	-	5,000	20,000	40,000
Land Care	5,308	7,171	6,688	8,325	10,359	10,359	7,713	8,176	8,667
Provincial Infrastructure	29,771	39,603	35,479	71,641	65,641	65,641	-	-	-
Comprehensive Agriculture Support Programme	52,217	48,332	46,120	81,103	95,832	95,832	108,483	130,771	148,123
Vote 05	-	-	-	-	-	-	-	-	-
Provincial Infrastructure	-	-	-	-	-	-	-	-	-
Vote 7	501,318	547,776	634,630	880,775	904,258	904,258	1,016,523	1,314,166	1,448,822
Malaria and Cholera Prevention	2,059	-	-	-	-	-	-	-	-
Hospital Management and Quality Improvement	17,035	-	-	-	-	-	-	-	-
Health Professional Training & Development	69,857	74,485	72,881	79,834	82,896	82,896	88,759	94,085	99,730
Hospital Rehabilitation	152,169	99,805	143,441	248,540	252,029	252,029	206,931	323,425	375,672
HIV/AIDS	98,318	165,213	200,550	234,410	234,410	234,410	291,474	403,280	432,554
Integrated Nutrition Programme	27,023	-	-	-	-	-	-	-	-
National Tertiary Services	45,759	72,381	77,065	150,168	152,239	152,239	176,871	257,314	272,409
Redistribution of Specialised Health Services	-	-	-	-	-	-	-	-	-
Provincial Infrastructure	89,098	101,056	105,529	134,366	134,366	134,366	167,255	196,149	226,149
Forensic Pathology Service Grant	-	34,836	35,164	33,457	48,318	48,318	35,233	39,913	42,308
Health Disaster Response (Cholera) Grant	-	-	-	-	-	-	50,000	-	-
Vote 8	264,359	291,786	440,461	486,041	490,439	490,439	875,798	878,518	978,518
Provincial Infrastructure	264,359	291,786	440,461	486,041	486,041	486,041	696,256	878,518	978,518
Overload Control Grant	-	-	-	-	4,398	4,398	5,035	-	-
Public Transport Operation Grant	-	-	-	-	-	-	174,507	-	-
Vote 9	-	-	-	12,294	15,294	15,294	21,276	25,154	26,063
Devolution of Property Rate Funds Grant	-	-	-	12,294	12,294	12,294	13,776	15,154	16,063
Provincial Infrastructure	-	-	-	-	3,000	3,000	7,000	10,000	10,000
Expanded Public Works Programme Incentive	-	-	-	-	-	-	500	-	-
Vote 11	377,777	521,331	663,167	783,247	824,806	824,806	996,667	1,234,750	1,415,163
SA Housing Fund	372,776	521,331	663,167	783,247	824,806	824,806	996,667	1,234,750	1,415,163
Human Settlement	5,001	-	-	-	-	-	-	-	-
Capacity Building	-	-	-	-	-	-	-	-	-
Local Govt. Capacity Building Fund	-	-	-	-	-	-	-	-	-
Municipal Infrastructure Programme	-	-	-	-	-	-	-	-	-
Flood Disaster	-	-	-	-	-	-	-	-	-
Vote 12	32,434	-	-	-	-	-	-	-	-
Financial Management	-	-	-	-	-	-	-	-	-
HIV/AIDS	8,648	-	-	-	-	-	-	-	-
Integrated Social Development Services Grant	23,786	-	-	-	-	-	-	-	-
Vote 13	2,560	11,995	35,785	71,167	79,019	79,019	100,979	108,337	114,837
Mass Sport & Recreation Participation Prog.	2,560	11,885	24,118	28,241	30,615	30,615	45,023	45,604	48,340
Library Services	-	-	11,667	42,926	48,404	48,404	55,956	62,733	66,497
Freedom Day Celebration	-	110	-	-	-	-	-	-	-
Total conditional grants	1,732,002	2,017,904	2,475,406	3,167,884	3,366,894	3,366,894	4,119,440	5,074,997	5,924,109

Conditional grants are earmarked funds provided by the national Government to the Province for the achievement of specific targets. All conditional grants have clearly stipulated conditions recipients have to meet to be able to access these grants fully. Conditional grant allocations are generally made in tranches and require strict reporting. The use of conditional grants includes, amongst other things, the fulfilment of nationally determined policy objectives, addressing backlogs and effecting transition through supporting capacity-building and structural adjustment within the recipients. As shown in Table 1.16, the conditional grants apportioned to Limpopo Province increased by 22.4 per cent in nominal terms from the financial period 2008/2009 to 2009/2010. They further increased by 23.2 per cent and 16.7 per cent for the financial year 2010/2011 and 2011/2012, respectively. Over the 2008/2009 MTEF, the Provincial conditional grants registered a positive nominal growth rate of 14.7 per cent year-on-year. It is noted that the Provincial conditional grants have been reduced by about 1.8 per cent over the 2009/2010 MTEF compared to the 2008/2009 MTEF.

### **4.3.1 Priority spending addressed by conditional grants**

As stated above, conditional grants are funds earmarked by Government for provinces to achieve specific targets, such as addressing backlogs and effecting transition through supporting capacity-building and structural adjustment within the recipient administration. The conditional grants encompassed in the Infrastructure Grants, the National School Nutrition Programme, the Comprehensive HIV/Aids Grants and the South African Housing Fund Grant constitute a large portion (about 62 per cent) of the total conditional grants to Limpopo, underscoring Government's efforts to achieve the goals set in the Accelerated and Shared Growth Initiative of South Africa (ASGISA). For example, according to ASGISA, public sector infrastructure spending has considerable potential spin-offs in terms of the generation and regeneration of domestic supply industries, small business development and empowerment. It is against this backdrop that Government envisaged a capital budget growth rate of between 10 per cent and 15 per cent per year. Furthermore, the provincial conditional grants are aimed at contributing positively to provincial social and human capital investment through potential improvements in the provincial health and education systems, provincial infrastructure and housing – ensuring that the poorest of the poor can be adequately sheltered, educated and immunised/diagnosed.

### **4.3.2 Revision of conditional grants**

The National Tertiary Service Grant baseline has been set at R176.871 million, R257.314 million and R272.409 million for the 2009/2010, 2010/2011 and 2011/2012 financial years, respectively. The motive behind this upward revision in the National Tertiary Service Grant is to assist the Province to plan, moderate and transform tertiary services, in line with national policy objectives, to improve access and equity, especially in areas such as diagnostic radiology, telemedicine and oncology.

The Infrastructure Grant apportioned to Limpopo Province received additional funding of R1.4 billion, R1.8 billion and R2.1 billion in the 2009/2010, 2010/2011 and 2011/2012

financial years, respectively. The purpose of this grant is to eradicate the infrastructure backlogs within the Provincial jurisdiction. Of the total amount added to this grant, R50.3 million and R185.2 million were budgeted for the financial period 2010/2011 and 2011/2012, respectively, to finance education-related infrastructure components. This amount is distributed as follows:

- R16.1 million in 2010/2011 and R64.5 million in 2011/2012 have been set aside for school infrastructure requirements to enable the recapitalisation of schools forming part of the public school system. This fund will also be used to upgrade school infrastructure, secure school facilities and increase the maintenance and installation of new learning material (books) and equipment in libraries and laboratories.
- R34.2 million in 2010/2011 and R120.8 million in 2011/2012 have been budgeted to ensure sufficient classroom space for Grade-R learners entering the public school system.

In addition, the National School Nutrition Programme Grant received additional funding to the baseline of R252.901 million, R290.488 million and R375.721 million in fiscal years 2008/2009, 2009/2010 and 2010/2011, respectively. This R919 million injection into the grant over the 2008/2009 MTEF will be used to consolidate the programme in the primary school phase by covering all eligible learners up to Grade 7, improving the quality of meals and providing meals on more school days.

For the 2009/2010 MTEF, the National School Nutrition Programme Grant baseline has been revised upwards to R419.2 million, R659.2 million and R829.7 million for financial years 2009/2010, 2010/2011 and 2011/2012, respectively, to ensure that all quintile 1 to 3 primary school learners are fed on all school days and to progressively expand the programme to secondary schools.

The Hospital Revitalisation Grant baseline was revised upwards to R207 million, R323 million and R376 million in 2009/2010, 2010/2011 and 2011/2012, respectively to cover shortfalls preventing the scaling up of the hospital revitalisation programme. The additional amount allocated to this grant is also meant to finance the operation and maintenance of those Provincial hospitals that have been revitalised.

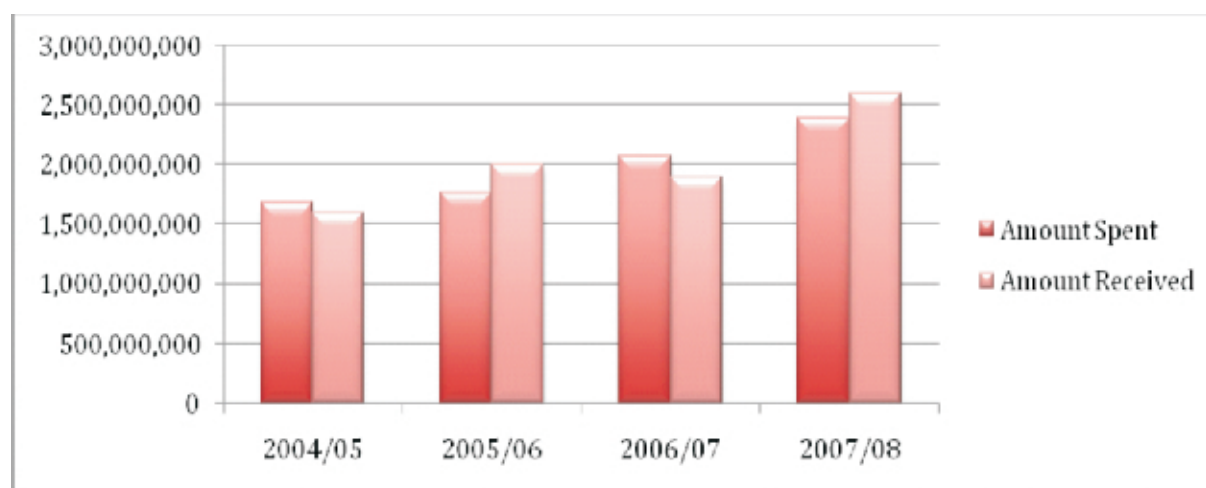
The Integrated Housing and Human Settlement Grant baseline was revised upwards to R996.7 million, R1.2 billion and R1.4 billion in fiscal years 2009/10, 2010/2011 and 2011/2012, respectively. A further upward revision occurred on the Comprehensive HIV/Aids Grant, which has increased to R291.4 million, R403.3 million and R432.5 million in the financial years 2009/2010, 2010/2011 and 2011/2012, respectively. The additional funds seek to meet the greater demands due to faster anti-retroviral (ARV) take-up.

Finally, the Comprehensive Agriculture Support Programme (CASP) Grant budgeted amount increased to R108.5 million, R130.8 million and R148.1 million for the 2009/2010, 2010/2011 and 2011/2012 fiscal years, respectively. The additional funding would be used to scale up the grant to support food security and for infrastructure improvements to agriculture colleges.

Over and above these baseline revisions to existing conditional grants, new conditional grants are being introduced in the current MTEF (2009), including the Ilima/Letsema Projects Grant, the Agricultural Disaster Management Grant and the Overload Control Grant. The Ilima/Letsema Projects grant aims to assist vulnerable South African farming communities to achieve a 10 per cent to 15 per cent increase in agricultural production. For this grant, Limpopo Province has been allocated R5 million, R20 million and R40 million for the financial year 2009/2010, 2010/2011 and 2011/2012, respectively. The Agricultural Disaster Management Grant, with R5 million for the financial year 2009/2010, must provide relief to farmers affected by natural disasters, while the Overload Control Grant (also R5 million in 2009/2010) will be used to preserve road infrastructure by ensuring that overloading practices are significantly reduced.

### 4.3.3 Spending on conditional grants

**Figure 1.39: Limpopo Provincial Spending on Conditional Grants**



Source: Own calculations

The Province received an amount of R1.6 billion, R2 billion and R1.9 billion in 2004/2005, 2005/2006 and 2006/2007, respectively, earmarked to address backlogs in health, education and the development of Provincial infrastructure. From the earmarked funds (conditional grants) the Province received over the MTEF 2004/2005, the Province overspent its allocation by about five per cent. For the financial year 2004/2005, the Province underspent its conditional grants allocation by 12 per cent, hence the total spending was 88 per cent. However, for financial years 2005/2006 and 2006/2007, the Province overspent its allocated conditional grants budget by nine per cent and 12 per cent, respectively (see Figure 1.39).

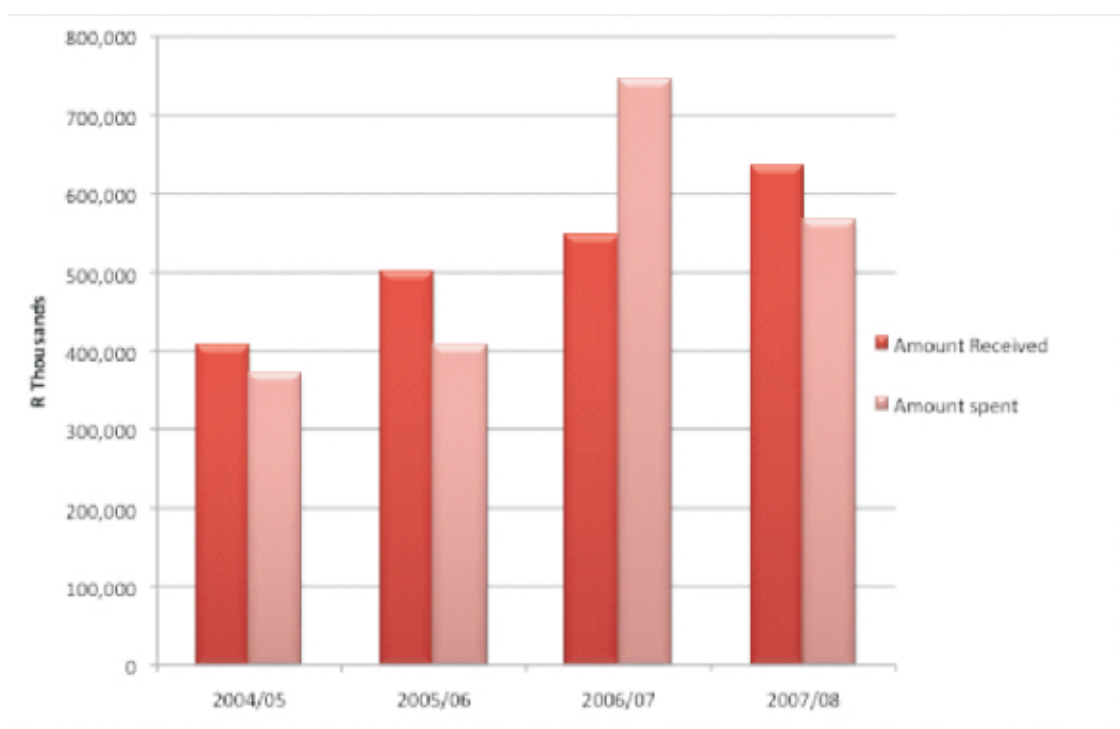
For financial year 2007/2008, the Province recorded a 5% underspending on its conditional grants allocation, which can be ascribed to slow spending recorded by the Department of Agriculture, in particular non-spending on the Agriculture Disaster Management Fund.

During the third quarter of the 2008/2009 fiscal year, the Province spent about 54 per cent of its conditional grants allocation. The Departments of Public Works, Agriculture and Sport, Arts and Culture recorded insignificant spending rates of about 2 per cent, 25 per cent and 45 per cent, respectively. The challenges encountered in terms of spending on these allocations and the remedial steps taken by the Province are outlined below for each affected department.

The large per cent share of conditional grants allocated to the Province during the 2009/2010 MTEF and the outer years are earmarked for the improvement and development of Provincial infrastructure. Provincial Infrastructure Grants constituted 36 per cent, 35 per cent and 43.5 per cent in 2009/2010, 2010/2011 and 2011/2012, respectively. The Integrated Housing and Human Settlement Development Grant received by the Department of Housing amounted to 26 per cent, 24 per cent and 24 per cent for the 2009/2010, 2010/2011 and 2011/2012 financial years, respectively.

#### 4.3.3.1 The Department of Health

Figure 1.40: The Department of Health : Conditional Grants Received and Spent



Source: Own calculations

As shown in Figure 1.40, the Department of Health's conditional grants allocation for financial years 2004/2005, 2005/2006 and 2006/2007 was R407.450 million, R501.328 million and R547.776 million, respectively. On the total allocation received, the

department underspent by 9.2 per cent and 19 per cent, respectively, in financial years 2004/2005 and 2005/2006. However, for the financial year 2006/2007, the department overspent its conditional grants allocation by 36 per cent. Therefore, for the 2004/2005 MTEF, the department's average spending rate was 97 per cent.

For the financial year 2007/2008, the Department of Health spent about 89 per cent of its conditional grants allocation (R634.630 million). A significant underspending in the National Tertiary Services and Hospital Revitalisation Grants was the largest contributing factor to the overall underspending of 11% recorded by the department in 2007/2008.

By the third quarter of the financial year 2008/2009, the department had spent about 57 per cent of its conditional grants allocation (R769.9 million). Slow spending was recorded on the National Tertiary Services Grant (42 per cent), the Forensic Pathology Services Grant (50 per cent), the Health Professional Training and Development Grant (51 per cent) and the Hospital Revitalisation Grant (56 per cent), and was due to the following:

- The underspending recorded on the National Tertiary Services Grant was due to a delay in the procurement of equipment from international suppliers.
- The underspending recorded on the Hospital Revitalisation Services Grant was purportedly caused by delays in the completion of existing projects due to under-performance by contractors, inadequate supervision by the implementing agent and an inability to finalise projects.

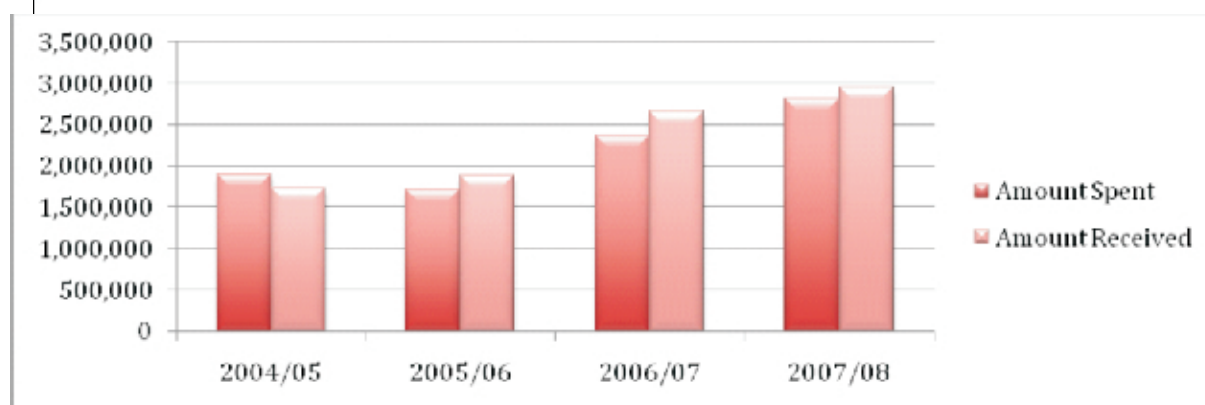
The Province has resolved to take the following remedial steps:

- Fast-track the process of issuing invoices for payments of services and equipment.
- Turn around the strategy development for the Hospital Revitalisation programme.

Finally, it should be noted that the largest percentage of the department's conditional grants allocation was apportioned to the Comprehensive HIV/Aids Grant (43 per cent and 38 per cent of the total conditional grants allocation in 2006/2007 and 2007/2008, respectively). However, for the financial year 2008/2009, the Hospital Revitalisation Grant received the largest percentage of the total conditional grants allocation to the Department of Health.

### 4.3.3.2 The Department of Education

**Figure 1.41: The Department of Education: Conditional Grants Received and Spent**



**Source:** Own calculations

The conditional grants allocation to the Department of Education grew by 10.8 per cent year-on-year over the period 2004/2005-2006/2007. Over the 2004/2005 MTEF, the department spent 99 per cent of its conditional grants allocation. For the fiscal year 2004/2005, the department overspent its conditional grants allocation by 26 per cent. However, in the 2004/2005 MTEF outer years, the department underspent its allocation by 16 per cent and four per cent, respectively.

The conditional grants allocated to the department over the 2004/2005 MTEF included the National School Nutrition Programme Grant (which constituted almost 89 per cent of the total allocation) and the HIV/Aids (Life Skills Education) Grant. However, for financial years 2005/2006 and 2006/2007, the HIV/Aids Grant received the largest share of the total allocation (83 per cent and 76 per cent, respectively). During the 2006/2007 financial year, the department received an additional conditional grant of R43 million to improve the conditions of the FET colleges to address the mismatch of skills in the labour market (this grant is known as the Further Education and Training College Sector Recapitalisation Grant). The grant has been scheduled until 2008/2009, where after the Province is expected to finance it from its equitable share allocation. The other two conditional grant allocations mentioned here will remain financed by National Government over the 2008/2009 MTEF.

For the 2007/2008 financial year, the Department of Education underspent its conditional grants allocation by about five per cent. Of the three conditional grants allocated to the department during this year, it managed to spend all the funds allocated in two of these grants – the Further Education and Training College Sector Recapitalisation Grant and the National Nutritional School Programme Grant. However, on the HIV and Aids (Life Skills Education) Grant, the department recorded an underspending of about 46 per cent. The reason for this lack of service delivery in terms

of making school children aware of the dangers of the HIV/Aids pandemic can be ascribed to a lack of capacity within the department.

During the third quarter of the 2008/2009 fiscal year, the department spent about 63 per cent of its total conditional grants allocation (R444 million). The challenges contributing to slow spending recorded for the HIV/Aids Grant (20 per cent spent) and the National School Nutrition Programme Grant (53 per cent spent) were:

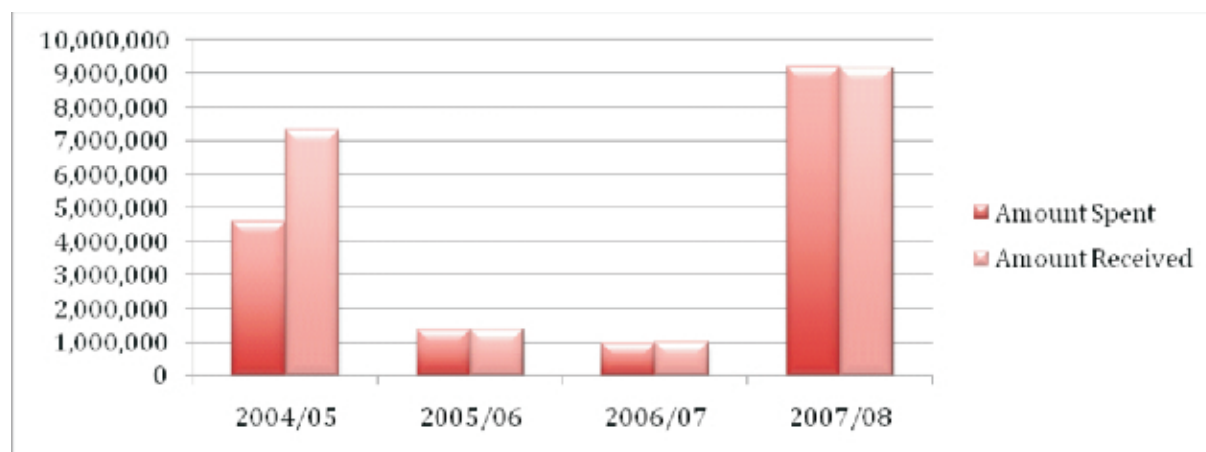
- Staff shortages in the districts and the appointment of service providers that was still in process.
- In other areas, master trainers were committed to other responsibilities.

The Province has taken the following remedial action to deal with these challenges:

- Training and workshops were scheduled to take place between January and March 2009. Materials and books were to be purchased during the last quarter of 2008.
- Eating utensils for public secondary schools would be procured and the increase in the feeding scheme price (from R1.26 to R1.50 per learner) would be implemented immediately.

#### 4.3.3.3 The Department of Agriculture

Figure 1.42: The Department of Agriculture : Conditional Grants Received and Spent



Source: Own calculations

The Department of Agriculture's conditional grants allocation amounted to R73.072 million, R139.726 million and R101.860 million in the 2004/2005, 2005/2006

and 2006/2007 financial years, respectively. These funds were earmarked to finance the Comprehensive Agriculture Support Programme Grant (with more than half of the total allocation apportioned to this grant over the 2004/2005 MTEF), the Land Care Programme Grant: Poverty Relief and Infrastructure and the Agricultural Disaster Management Grant.

Although the department underspent its conditional grant allocation by 37 per cent and 4 per cent, respectively, for the 2004/2005 and 2006/2007 fiscal years, it reached equilibrium in terms of spending its allocation in the 2005/2006 financial year.

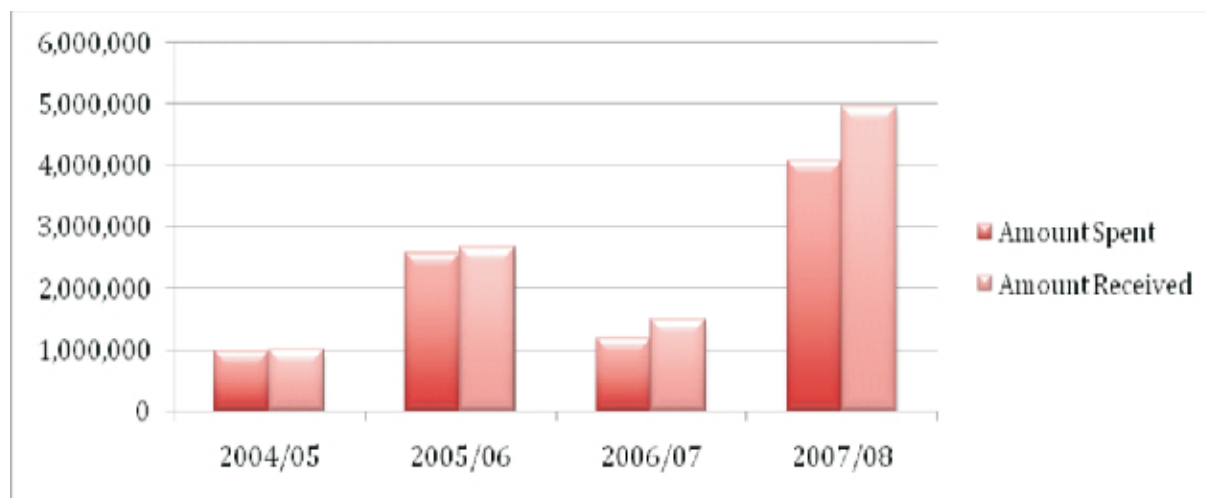
During the 2007/2008 fiscal year, the department spent about 45 per cent of its total R118.6 million conditional grants allocation. This significant underspending can be attributed to non-spending and low spending on some of the conditional grants the department received. For example, the department spent none of the funds allocated under the Agriculture Disaster Management Grant, while it underspent by 27 percent on the Comprehensive Agriculture Support Programme Grant and by 23 percent on the Land Care Programme Grant.

For the third quarter of the 2008/2009 financial year, the Department of Agriculture spent about 45 per cent of its conditional grants allocation. This apparent spending improvement compared to the previous financial year could be misleading, as it was in fact due to the termination of the Agriculture Disaster Management Grant (which recorded a zero spending rate in the previous financial year). Of the two remaining conditional grants, the department spent about 45 per cent of the Comprehensive Agriculture Support Programme Grant allocation and 43 per cent of the Land Care Programme Grant allocation. The fact that the department had spent less than half of its conditional grants allocation by the third quarter of the 2008/2009 financial year indicates some serious challenges, in particular in terms of the following:

- The materials for some of the department's fencing projects arrived late, which meant the work could not be completed. This led to labour / Expanded Public Works Programme costs not being paid, while most of the fencing projects were only paid for in December 2008.
- Two major projects were delayed, as the contractor did not have the financial capacity to implement them.
- The Extension Recovery (allocation for recruitment/compensation of employees) experienced challenges due to disagreements between the national Department of Agriculture and the Province on categories of personnel to be paid.

#### 4.3.3.4 The Department of Sport, Arts and Culture

**Figure 1.43: The Department of Sport, Arts and Culture: Conditional Grants Received and Spent**



**Source: Own calculations**

The Department of Sport, Arts and Culture received conditional grant allocations of R1 million, R2.670 million and R1.420 million in the 2004/2005, 2005/2006 and 2006/2007 financial years, respectively, and spent 98 per cent, 96 per cent and 80 per cent of these allocations. On average, the department spent 83 per cent over the 2004/2005 MTEF, which represents an average underspending of 17 per cent.

For the 2007/2008 financial year, the department underspent its conditional grants allocation by about a quarter. It spent approximately 61 per cent of the Mass Sport and Recreation Participation Programme Grant allocation and 69 per cent of the Library Services Grant allocation during this fiscal year.

During the third quarter of the 2008/2009 financial year, the department spent about 25 per cent of its conditional grants allocation (R79 million). Up to December 2008, the department spent 28 per cent in the Mass Sport and Recreation Participation Programme and 23 per cent of the Library Services allocation. Spending challenges encountered by this department include the following:

- A problem was encountered with the tender specification for athletic tracks, which was resolved after consultation with the municipality. This resulted in the late advertisement of the tender but the awarding process was to be finalised during January 2009.
- Library materials were delivered late, since the publishers had to order some of the books from overseas. The Fetakgomo library is currently being built but the

Department of Public Works still has to award the tender to erect the Thulamela library; in this case the timeframe is uncertain. A commitment of R7.4 million was to be spent in January 2009.

To remedy these problems, the Province has resolved to take the following steps:

- In terms of problems around athletic tracks, the department will engage with the appointed contractor to fast track the process as soon as the successful bidder has been identified and the contract finalised.
- The department will follow up on the submission of invoices and has scheduled a site visit to Fetakgomo for 22 January 2009.

#### **4.3.3.5 The Department of Public Works**

The Department of Public Works did not receive any form of conditional grant over the 2004/2005 MTEF but is currently receiving an allocation for the 2008/09 MTF. R12.294 million, R13.776 million and R15.154 million, respectively, in terms of the Devolution of Property Rate Funds Grant have been apportioned to the department over the 2008/2009 MTEF.

Up to the third quarter of the 2008/2009 fiscal year, the department had spent only two per cent of the only conditional grant allocated to it. This very slow spending rate is due to a number of challenges encountered during the course of this financial year, including the following:

- The adoption of an Integrated Electronic (IE) system for payments of devolved properties introduced serious delays.

The Province has resolved to take the following remedial steps:

- Payments which were effected on the IE system have been resolved and invoices are now being received.
- Municipalities are to be informed that bills for devolved properties must be directed to the Department.
- A special workshop will be arranged to discuss the billing issue to ensure compliance with the requirements.

#### **4.3.3.6 The Department of Local Government and Housing**

The Department of Local Government and Housing spent 80 per cent and 79 per cent of its conditional grant allocation for the 2004/2005 and 2005/2006 financial years, respectively – an underspending of 20 per cent in 2004/2005 and 21 per cent in 2005/2006. However, the department's spending pattern took a different direction during the 2006/2007 financial year, with a 24 per cent overspending recorded. For the financial year 2007/2008, the department again underspent its allocation, by about three per cent. Up to the third quarter of the 2008/2009 fiscal year, the department spent about 58 per cent of its Integrated Housing and Human Settlement Development Grant allocation. The department cited the following challenges as contributing to its slow spending rate:

- Municipalities (water services authorities) did not service development areas identified for the building of top structures in 2008/09 and the Department of Local Government and Housing initiated installation before municipalities could commence with these services.
- Municipalities did not complete town planning processes and feasibility studies and caused a delay in the commencement of both services.
- Villages and municipal wards are far apart and pose challenges to contractors' business viability.

To conclude, the Limpopo Provincial Government's conditional grants allocation recorded a 15.4 per cent nominal growth rate over the period 2004/2005 to 2010/2011. The Province overspent its conditional grants allocation by 11 per cent on average over the 2004/2005 MTEF. Such overspending was driven by departmental overspending, which included a three percent overspending by the Department of Health and a 24 per cent overspending by the Department of Housing in 2006/2007, while the Department of Education overspent its 2004/2005 allocation by 26 per cent. For the 2007/2008 financial year, the Province underspent its conditional grants allocation by about five per cent.