

Metro Budget Notes

April 2019

National Budget 2019: New funding mechanisms for informal settlement upgrading

The **2019 National Budget**¹ introduces important changes in national government grants to metropolitan municipalities (metros) that could increase the amount of funding available for the provision of basic services to and the upgrading of informal settlements; and make it easier to track whether such funds have been spent as intended.

These changes require metros to spend a specific share of the Urban Settlements Development Grant (USDG) on individual informal settlement upgrading projects. The new grant conditions also require metros to publish more information in their Built Environment Performance Plan (BEPP)² on how they are going to spend the USDG to upgrade informal settlements. These changes could make it easier to see what proportion of the USDG metros are spending on informal settlement upgrading as opposed to other projects such as bulk infrastructure. The information could also help communities engage with metros about the allocation and spending of the USDG on specific upgrading projects.

Introduction of the “UISP window” for 2019/20

The total USDG for 2019/20 increases very slightly from the estimate provided in the 2018 National Budget, from R11.88 billion to R12.05 billion. The budget introduces what is called an “Upgrading Informal Settlements Programme (UISP) Window” for 2019/20 where 20% of the USDG has to be spent on informal settlement upgrades and this “window” includes a requirement that metros work in partnership with communities. This is a minimum amount, which means that metros can spend more on upgrading if they wish to.

The lessons learnt from the implementation of this “grant window” in 2019/2020 will inform the design of a new grant to be implemented in 2020/21. While some provisional amounts have been set aside for the grant for 2020/21 and 2021/22, the budget documents indicate that the new grant could reach the equivalent of 50% of the USDG by 2021/22.

¹ For more information please see the 2019 Budget Review and the 2019 Division of Revenue Bill (both available online at <http://www.treasury.gov.za/documents/national%20budget/2019/default.aspx>)

² All metros are required by the Division of Revenue Act to compile and submit a Built Environment Performance Plan (BEPP) in order to qualify for the transfer of a range of infrastructure grants.

But there are further changes

In 2020/21, two new grants will be introduced to fund the upgrade of informal settlements through partnerships between communities, and metros and provinces respectively. For now, the grants to provinces and metros are both called the “Informal Settlements Upgrading Partnership Grant”. Funding for these grants will be taken from the Human Settlements Development Grant to provinces, and from the USDG to metros. In 2020/21 and 2021/22, the new grants are expected to receive funding to the total of R14.7 billion, and impact on 231 000 households.

In addition, R814.5 million over the 2019/20 – 2021/22 period is being shifted from the Integrated National Electrification Programme to the Urban Settlements Development Grant to fund the improved implementation of the electrification of households in informal settlements in metros.

Changes to the USDG framework and conditions

A number of new specified outputs and conditions have also been added to the USDG framework.

Specific outputs to be funded from the UISP window include:

- the number of approved informal settlement upgrading plans utilising the National Upgrading Support Programme;
- the number of “social compacts” concluded with communities/community organisations;
- the number of informal settlements designated for upgrading;
- the number of approved upgrading plans implemented; and
- the number of informal settlements provided with interim and permanent municipal engineering services.

The new framework also requires the compilation of a USDG plan as an annexure to the BEPP. This plan should include a project list with names and description of projects to be funded by the grant.

Metros will further be required to submit an Informal Settlement Upgrading Plan for each settlement to be upgraded by 31 May 2019. The grant framework stipulates that the amount ringfenced by the UISP window and the planned new grants “may only be used for projects contained in the approved informal upgrading plans of each municipality”.