

FINANCIAL AND FISCAL COMMISSION KEY RECOMMENDATIONS SINCE 1994

1. WHAT IS THE FFC?

The Financial and Fiscal Commission (FFC) is a statutory body set up in terms of Chapter 13 of the Constitution of the Republic of South Africa. Its mandate is defined in the Constitution and the Financial and Fiscal Commission (2003) as amended. It is a permanent expert commission.

The FFC has the primary responsibility of making recommendations to all relevant legislative authorities regarding the equitable division of revenue between and among the three spheres of government. The Commission also has the mandate to make recommendations to organs of state on any financial and fiscal matters. The recommendations concern such matters as revenue sharing, financial allocations, taxation, borrowing, criteria used in the determination of these matters and general financial and fiscal matters of governments. The Commission's role is to ensure the creation and maintenance of an effective, equitable and sustainable system of intergovernmental fiscal relations.

2. RECOMMENDATIONS MADE SINCE 1994

To date the Commission has made key contributions with respect to the financing arrangements and the evolution of the intergovernmental fiscal relations systems in South Africa. Among these are the proposals to have a formula-based intergovernmental transfers and allocations that ensure transparency and take account of the Constitutional provisions of Section 214 a-j of the Constitution. The key recommendations that the Commission has made to date are summarized below and a comprehensive list is provided in Annexure A.

- In 1995/96 the Commission proposed a framework for Intergovernmental Fiscal Relations
- In 1996/97 a recommendation was made that total provincial allocations be divided by means of a transparent and equitable provincial grant formula.

- In 2000/01 the Commission proposed a review of the equitable share formula, and it tabled an alternative Costed Norms Approach (CNA) for this. Even though not accepted, government agreed that these be used as an analytical tool. To date and in the recent formula review consultations, government has been strongly leaning towards the use of the costed norms in certain of the selected sectors where data is available. The formula is to be used to ensure that various spheres are funded based on the cost of services they provide. Such costs are to be guided by an attainment of set standards that recognize the variability in socio economic conditions and circumstances that citizens across the country find themselves in.
- In 2001/02, the Commission proposed a capital grants allocation formula to allocate funds to provinces from the national sphere to address social infrastructure backlogs.
- In 2002/03 the Commission recommended that the social security function residing with provinces be shifted from the provincial to the national sphere.
- In 2003/04, a proposal was made that the Early Childhood Development be incorporated into the Education Component of the Provincial Equitable Share formula.
- In 2004/05 the Commission made proposals to the provincial and local government spheres that their allocations be based on social services expenditures.

SOME OF THE RECOMMENDATIONS THAT GOVERNMENT COULD NOT ACCEPT OR IMPLEMENT

- In 2000/01 the Costed Norms Approach mentioned above could not be accepted and implemented for purposes of determining allocations. Government cited lack of appropriate data pertaining to desired output measures, policy parameters and costs of inputs that did not exist.
- For 2002/2003 a recommendation on assessing the Disaster Management Bill (2001), proposed that a more defined legal basis for the central contingency reserve be provided and that a contingency reserve in a relevant budget year be allocated for two emergency purposes, namely macroeconomic stability and

response to natural or human disasters. Government rejected this recommendation citing that the contingency reserve is for the possibility that funds may be required for unforeseeable and unavoidable expenditure and should not be confined to cover specific emergencies related to macroeconomic stability or human-made disaster.

The full list of the rejected proposals and work in progress recommendation were presented as part of the 2005 handover report to the new administration and are captured by Annexure B and C respectively.

3. RECOMMENDATIONS MADE SINCE 1994

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- In 1996/97 a recommendation was made that total provincial allocations be divided by means of a transparent and equitable provincial grant formula.
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- In 2001/02, the Commission proposed a capital grants allocation formula to allocate funds to provinces from the national sphere to address social infrastructure backlogs.
- In 2002/03 the Commission recommended that the social security function residing with provinces be shifted from the provincial to the national sphere.
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Annexure A: Past FFC Recommendations

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 1995/96 	
Proposed a Framework for Intergovernmental Fiscal Relations	<ul style="list-style-type: none"> Government accepted the framework and adhered to the broad principles proposed by the FFC
<ul style="list-style-type: none"> 1996/97 	
<p>Recommended that total provincial allocations be divided by means of a transparent and equitable provincial grant formula:</p> $P = S + B + T + I + m$	<ul style="list-style-type: none"> Government accepted some elements of the formula suggested by the FFC and were considered in making final allocations for 1997. Government further indicated that the final provincial equitable allocations were derived from a formula similar in design to that proposed by the FFC.
<ul style="list-style-type: none"> 2000/01 	
Proposed that a Capital grants be allocated to the provinces from the national sphere to address social infrastructure backlogs as an interim solution.	<ul style="list-style-type: none"> The approach was adopted for the following MTEF. Government further agreed with the FFC on the need to develop a framework around Capital grants. As there was no analytical model for allocating the grant, the FFC began developing a Capital grants model for the education, health and welfare sectors.
<ul style="list-style-type: none"> 2000/01 	
Proposed that government create the conditions necessary for the emergence of a local government borrowing market through enhancing LG debt management capacity and implementing a rule based approach for infrastructure provision.	<ul style="list-style-type: none"> Government broadly supported the proposal and suggested further work before implementing this proposal.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
• 2000/01	
Proposed that the following taxes should constitute provincial own revenue sources: a surcharge on personal income tax, a fuel levy and betting and gambling taxes	<ul style="list-style-type: none"> Consistent with government's approach but identification of specific taxes and rates is an outcome of a technical and political consultative process according to the Provincial Tax Regulations Act. There are also other technical factors such as additional administrative burdens and exacerbation of inter-provincial inequalities which make a personal income tax surcharge undesirable
2001/02	
Proposed a Review of the equitable share formula	<ul style="list-style-type: none"> Government accepted the FFC's recommendation and further indicated that the review should take place once provinces take up specific taxation powers as their fiscal capacity may change.
2002/03	
Recommended that social security should be a national responsibility administered through the establishment of the national social security agency	<ul style="list-style-type: none"> Government accepted the proposal and is currently implementing it.
2002/03	
Proposed that remuneration of councilors should be channeled through the existing institutional grant of the LES	<ul style="list-style-type: none"> Government supported the proposal
2003/04	
Proposed the incorporating of Early Childhood Development into the Education Component	<ul style="list-style-type: none"> Government accepted the recommendation and further indicated that the ECD grant is phased out, and the education component in the equitable share formula has been expanded for the 2004 Budget to cover grade R by adjusting the age cohort to 5 – 17.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
• 2003/04	
Proposed a comprehensive review of the local government fiscal framework	<ul style="list-style-type: none"> The review, which covers the equitable share and conditional grants, as well as other taxes and levies in addition to property rates is currently under way, and it is hoped that these will be finalized in time for the 2005 Budget
• 2003/04	
Proposed a design of the poverty alleviation package which should align the social security payments with provision of free basic services.	<ul style="list-style-type: none"> Government undertook a review of the poverty alleviation programmes and has decided to phase most of them into the equitable share or into the infrastructure grants.
• 2004/05	
The FFC proposed that weights assigned to different components of the formula be revised to take account of the changing priorities and changing composition of shares of social services in total provincial expenditure.	<ul style="list-style-type: none"> Government accepted the proposal and the weights of different components were rescaled based on the provincial social services expenditures.
• 2004/05	
Proposed that, given that ECD is funded through the provincial equitable share, the education component should be augmented by at least the full amount of the current conditional grant.	<ul style="list-style-type: none"> Government indicated that their approach is consistent with the FFC recommendation.
• 2005/06	
Proposed that the backlogs component of the PES be incorporated into the basic component and a separate conditional grant be set up for financing capital infrastructure. This should be allocated to provinces using the FFC's proposed provincial Capital grants Model.	<ul style="list-style-type: none"> Government accepts the proposal that the backlog component be removed from the equitable share formula. Government further asked the FFC to submit a supplementary proposal in which it explains in more detail its proposed Capital grant Model.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2005/06 	
<p>Recommended that the structure of the Local Government Equitable share formula should be based on constitutional requirements and proposed the following formula:</p> $\text{LES} = \text{S} + \text{B} + \text{I} + \text{T} + \text{m}$	<ul style="list-style-type: none"> Government agreed with the broad approach proposed by the FFC on the structure of a new formula. However government does not believe the practicality of considering a spillover grant (m) and a component to fulfill other constitutional and legislative requirements.
<ul style="list-style-type: none"> 2005/06 	
<p>Proposed that consideration should be given to applying a revenue raising-capacity measure to the Local Government Equitable share formula as a whole, rather than only on the I-component.</p>	<ul style="list-style-type: none"> Government accepted the FFC proposal and further indicated that this proposal is given effect in the new formula.
<ul style="list-style-type: none"> 2005/06 	
<p>Proposed that consideration should be given to applying a revenue raising-capacity measure to the Local Government Equitable share formula as a whole, rather than only on the I-component.</p>	<ul style="list-style-type: none"> Government accepted the FFC proposal and further indicated that this proposal is given effect in the new formula.
<ul style="list-style-type: none"> 2005/06 	
<p>Proposed that Government should ensure that comprehensive information and data on each basic service and tax source at municipal-level be collected.</p>	<ul style="list-style-type: none"> Government agreed with the FFC proposal and will explore how such a database can be established, and be accessible to key stakeholders.
<ul style="list-style-type: none"> 2006/07 	
<p>Proposed that Government should Review of health conditional grants the National tertiary services grant and the health professions. That the former be retained as a conditional grant and that the later have its conditions tightened</p>	<ul style="list-style-type: none"> Government agreed with the FFC proposal and went on to implement as proposed.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2006/07 	
<ul style="list-style-type: none"> Recommended that specific consideration be given to allocating funds to social welfare services in the provincial equitable share. Proposed that norms and standards for the delivery of a defined minimum basket of social welfare services by provinces be set 	<ul style="list-style-type: none"> Government agreed with the FFC proposal and stated that an increase in the basic component of the provincial equitable share to allow provinces the discretion to increase allocation to social welfare was being considered Government agreed with the FFC and indicated that it was already doing some work to define the basket of welfare services in line with the FFC proposal
<ul style="list-style-type: none"> 2006/07 	
Recommended that the Department of Provincial and Local Government's framework on the assignment of powers and functions to local government and the instruments that give effect to the framework should be finalised as a matter of urgency.	<ul style="list-style-type: none"> Government agreed with the FFC recommendation but indicated that that not every function lent itself to a tightly defined set of norms and standards.
<ul style="list-style-type: none"> 2006/07 	
<ul style="list-style-type: none"> Proposed that the institutional and funding framework for housing delivery should be aligned Proposed that new housing subsidies should be linked with the municipal infrastructure grant and the local government equitable share to ensure the sustained delivery of basic services. 	<ul style="list-style-type: none"> Government agreed with the FFC proposals
<ul style="list-style-type: none"> 2006/07 	
Proposed that criteria and processes for classifying all roads and assigning each class of road to a sphere of government or category of local government be developed as a matter of urgency.	<ul style="list-style-type: none"> Government agreed that the process of reclassifying roads and their assignment to the various spheres of government should be completed,

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2006/07 	
<p>Recommended that environmental health care be added to the list of basic services under the local government equitable share formula, and that a detailed 'environmental health care package be developed.</p>	<ul style="list-style-type: none"> Government agreed with the recommendation but was however of the view that its elements were adequately listed in the National Health Act (2003)
<ul style="list-style-type: none"> 2006/07 	
<p>Proposed that the development component not be incorporated in the local government equitable share formula as it will not result in an overall increase in the local government equitable share but in the realignment of the relative shares within the same envelope.</p>	<ul style="list-style-type: none"> Government agreed with the FFC proposal and stated that it would welcome alternative proposals from the FFC as to how the local government equitable share formula could be crafted so as to fully take account of the expenditure needs of local government
<ul style="list-style-type: none"> 2007/08 	
<p>The FFC reiterated its previous recommendation that conditional grants should be used solely to address problems of spill-over and that the funding of national priority programmes should be institutionalised in provincial or municipal budgets.</p>	<ul style="list-style-type: none"> Government agreed with the FFC recommendation indicating that such an approach was already envisaged as it would improve conditional grant monitoring and evaluation.
<ul style="list-style-type: none"> 2007/08 	
<p>The FFC also reiterated its previous recommendations that</p> <ul style="list-style-type: none"> national government departments should clearly define minimum norms and standards for delivery in areas of concurrent responsibility monitor the performance of provinces in complying with these to ensure that the minimum requirements for the use of conditional grants are met 	<ul style="list-style-type: none"> Government agreed with the FFC recommendation indicating that such an approach was already envisaged as it would improve conditional grant monitoring and evaluation.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
• 2007/08	
Proposed that the hospital revitalisation grant be incorporated into the provincial infrastructure grant as there was a strong convergence of purpose between the two infrastructure conditional grants, and this may improve the efficacy of the hospital revitalisation grant.	<ul style="list-style-type: none"> Government agreed with the FFC proposal indicating that such an approach was already envisaged as it would improve the monitoring and evaluation of these grants.
• 2007/08	
Recommended that the financing of the 2010 FIFA World Cup should be done in a manner that does not adversely impact on the considerations in section 214 (a-j) of the Constitution.	<ul style="list-style-type: none"> Government undertook to take steps to ensure that the costs of hosting the World Cup remain reasonable
• 2008/2009	
Proposed that the National School Nutrition Programme be extended to secondary schools	<ul style="list-style-type: none"> Government supported some of the observations put forward, by the FFC but cautioned against decision to extend the programme to secondary schools and indicated that its approach was to first seek improvement of the effectiveness and efficiency of the programme as it is presently structured before looking into the possibility of extending it to secondary schools.
• 2008/2009	
Proposed that an effective system for the coordination of planning for the various provincial and municipal infrastructure grants should be instituted as a matter of urgency to ensure optimal outcomes from school infrastructure investment.	<ul style="list-style-type: none"> Government supported this proposal and indicated that in an effort to address certain identified instances of misalignment it had introduced the electricity and water and sanitation grants to ensure that the school infrastructure programme was supported by the municipal infrastructure programmes.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2008/2009 	
Recommended that learner support material be clearly defined and its meaning restricted to stationery, textbooks, learner and teacher aids.	<ul style="list-style-type: none"> Government agreed that there should be separate line items for learner support materials as well as for maintenance, repairs and equipment.
<ul style="list-style-type: none"> 2008/2009 	
<ul style="list-style-type: none"> Proposed that all provinces should put in place a more effective road management system to ensure the gathering of accurate data on road conditions which in turn would guide resource allocations 	<ul style="list-style-type: none"> Government agreed with the proposal.
<ul style="list-style-type: none"> 2008/2009 	
Recommended that a process for the collection of data on homelessness be initiated and that such data should be included in the housing formula as part of the indicators of housing need.	<ul style="list-style-type: none"> Government agreed to the recommendation that homelessness should be quantified.
<ul style="list-style-type: none"> 2009/2010 	
Recommended that government should review the method used to inform the national quintile ranking of schools.	<ul style="list-style-type: none"> Government agreed with the FFC that the socioeconomic circumstances of learners should be taken into account and indicated that it was working on a policy to provide assistance to schools up to quintile 5 that accommodate very poor learners.
2009/2010	
The FFC recommended that national norms and standards for the provision of learner transport should be established.	<ul style="list-style-type: none"> Government agreed that the functional responsibility with respect to learner transport is that of the Department of Education. That Department was responsible for the provision of scholar transport. Government also agreed that the Department of Transport was responsible for regulatory requirements with respect to all public transport including learner transport.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2009/2010 	
Proposed that indicative allocations to schools and hospitals be gazetted with the tabling of provincial budgets, this practice be extended to clinics and other public health care facilities, as and when they fall under provincial control	<ul style="list-style-type: none"> Government indicated that Given the capacity constraints in certain provinces, attention is currently being given to ensuring compliance with existing requirements
<ul style="list-style-type: none"> 2009/2010 	
Recommended that greater emphasis be placed on improving the quality of service provided at clinics and funding the maintenance of existing primary health care facilities.	<ul style="list-style-type: none"> Government agreed that emphasis should be placed on improving the quality of health services provided at clinics
<ul style="list-style-type: none"> 2009/2010 	
Recommended that the process of classifying roads among the national, provincial and municipal spheres of government should be accelerated in line with the classification framework already established.	<ul style="list-style-type: none"> Government supported the recommendation that the road classification process be accelerated in line with the established framework and agreed that delays could lead to unintended consequences such as underinvestment in the function or lack of proper maintenance.
<ul style="list-style-type: none"> 2009/2010 	
Proposed that the replacement revenue source for RSC levies for municipalities should be a tax that enhances the fiscal autonomy and discretion of local government	<ul style="list-style-type: none"> Government supported the recommendation but indicated that the revenue capacities of individual municipalities need to be taken into account, because a replacement revenue instrument that is purely in the form of a tax is unlikely to achieve the desired goal
<ul style="list-style-type: none"> 2009/2010 	
Recommended that Government should work with the National Energy Regulator of South Africa to put in place a financing framework that deals effectively with electricity pricing.	<ul style="list-style-type: none"> Government agreed that the electricity (generation) price should reflect costs, efficiency, stability and, eventually, externalities i.e. reflect marginal rather than historical costs.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that spending on public transport infrastructure for 2010 should be linked to broader city development plans.</p>	<ul style="list-style-type: none"> Government supported the recommendation that projects funded through the public transport infrastructure and systems grant should be selected based on full appraisal of economic, environmental and social costs/benefits.
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that to assess the pro-poor impact of school funding norms, the Department of Education should make publicly available and accessible the funding norms of no-fee schools in line with new provisions of the 2008 Division of Revenue Act requiring indicative allocations by school.</p>	<ul style="list-style-type: none"> Government agreed with the FFC on the recommendation to make public and accessible the funding norms of no-fee schools.
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that health statistics for vulnerable groups such as the proportion of women with access to antenatal care; the availability, affordability and accessibility of health facilities for TB, HIV and Aids; and data concerning children, older persons and persons with disabilities should be collected and improved using the South African Statistical Quality Assurance Framework.</p>	<ul style="list-style-type: none"> Government supported this recommendation and indicated that the Department of Health has proposed that a TB nationwide prevalence survey be conducted.
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that in accordance with the prescripts of the Expanded Public Works Programme, job-creation target groups such as women, youth and people with disabilities should be included in the reporting of the outcome measures for all conditional infrastructure grants to provinces and municipalities</p>	<ul style="list-style-type: none"> Government supported this recommendation.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that all provincial departments receiving the integrated housing and human settlement development grant should comply with the measurable outputs related to reporting requirements detailed in the housing conditional grant framework.</p>	<ul style="list-style-type: none"> Government supported this recommendation.
<ul style="list-style-type: none"> 2009/2010 	
<p>Recommended that national and provincial government departments, agencies and other organs of state should eliminate duplicate data requests submitted to municipalities.</p>	<ul style="list-style-type: none"> Government supported this recommendation and indicated that a national coordinating body already exists in the form of the Local Government Data Collection Forum that was established in response to the need to rationalize local government data collection.
<ul style="list-style-type: none"> 2010/2011 	
<p>The commission recommended an increase in funding towards infrastructure programmes that are linked to basic services including water, health, electricity, roads, transport and communication and that for funds already in the system, Government should improve the quality of targeted outcomes of infrastructure investment towards employment creation and poverty reduction.</p>	<ul style="list-style-type: none"> Government agreed with the Commission that investment should be targeted towards infrastructure that supports basic needs. Informed by the Medium-Term Strategic Framework (2009-2014).
<ul style="list-style-type: none"> 2010/2011 	
<p>Government must develop norms and standards that should address issues in the public hospital system including specification of minimum service requirements; establishment of; minimum input norms, a workable quality assurance framework, a transparent reporting system focusing on inputs, processes, outputs, and outcomes, governance norms and standards, a strategic planning framework; identification of governance requirements.</p>	<ul style="list-style-type: none"> Government without accepting nor rejecting the recommendation indicated that the Commission's recommendation was in line with thinking in the Department of Health and the move towards the proposed National Health Insurance (NHI). Government further indicated a need to recognize the importance of ensuring that norms and standards proposed in this area of health be informed by the available resource envelope.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> • 2010/2011 	
<p>Recommended in respect of the review of the provincial equitable share formula:</p> <p>Option 1: The Short-Term solution</p> <p>That the reform of the provincial equitable share formula stays within the confines of the current constitutional dispensation i.e. the provincial equitable share formula should retain most part its current structure, and be divided into a number of component.</p>	<p>Government indicated that it will consider the recommendations made by the FFC as part of the first phase of the review.</p>
<p>Reform Option 2: The Medium- to Long-Term</p> <p>That the reform should depart from the realization that fixing the provincial equitable share as a pool requires the fixing of other aspects of the current fiscal decentralization system. That the education and health services should be taken out of the provincial equitable share, and that those components be converted into separate block, conditional grants from the national government to provinces. That activity" component be removed from the provincial equitable share formula and be converted into a revenue-sharing pool. And that there be an introduction of an equalisation grant.</p>	
<ul style="list-style-type: none"> • 2010/2011 	
<p>Recommended that Government should increase the rollout of social grants to cushion poor people from the effects of the economic downturn and that social assistance should be managed in such a way as to eventually reduce dependency on the social grants. And that government should use infrastructure expansion to provide opportunity for workfare programmes as well as activities identified in the Expanded Public Works Programme (EPWP).</p>	<ul style="list-style-type: none"> • Government indicated that in order for it to appropriately deal with this tension, it would be useful for the Commission to provide guidance around appropriate grant values that will result in an optimal balance between coverage and available resources.

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FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2010/2011 	
<p>Recommended that Government must develop norms and standards that should address issues in the public hospital system including specification of minimum service requirements; establishment of; minimum input norms, a workable quality assurance framework, a transparent reporting system focusing on inputs, processes, outputs, and outcomes, governance norms and standards, a strategic planning framework; identification of governance requirements.</p>	<ul style="list-style-type: none"> Government without accepting or rejecting the recommendation indicated that the recommendation was in line with thinking in the Department of Health and the move towards the proposed National Health Insurance (NHI). Government further indicated a need to recognize the importance of ensuring that norms and standards proposed in this area of health are informed by the available resource envelope.
<ul style="list-style-type: none"> 2010/2011 	
<p>Recommended a flexible approach to the (a) eligibility criteria for accessing the Social Housing Capital Restructuring Grant (SHRCG) to allow projects falling outside the Designated Restructuring Zones (DRZs) to access funding; (b) number of DRZs to respond to excess demand for rental housing; and (c) minimum unit size for redevelopments of existing buildings.</p> <p>Recommended further that the process of disbursing funds for rental housing within the housing sector should be made shorter to minimise time lags following the submission of approved project plans</p> <p>Recommended further that the Social Housing Regulatory Authority (SHRA) should improve the inter-sectoral coordination between various government departments responsible for integrated human settlement.</p> <p>Recommended finally that the qualifying income bands should be reviewed to ensure that individuals are not unfairly excluded from benefiting from the subsidy.</p>	<ul style="list-style-type: none"> Government indicated that those social housing programmes were only targeted at programmes rather than mass housing delivery programme with specific restructuring objectives. Government indicated that SHRA was established to focus on the regulation of the social housing sector in order to protect government's investment in rental housing. Government indicated that institutional subsidy qualifying criteria do not apply when the SHRCG is utilized in the social housing programme.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> • 2010/2011 	
<p>Recommended that an increased and stable flow of funds for roads maintenance, rehabilitation and treatment of backlogs in the long-term, through for an example explicit providing for a road infrastructure component within the provincial equitable share formula.</p> <p>Recommended further that there should be greater coordination of road management functions across the three spheres of government.</p>	<ul style="list-style-type: none"> • Government indicated that the recommendation would be re-considered as part of the second phase of the review of the provincial equitable share. • Government was of the view that the recommendation had merit as it would improve the intergovernmental co-ordination and resolve issues such as Roads Infrastructure Framework of South Africa (RIFSA).
<ul style="list-style-type: none"> • 2010/2011 	
<p>Recommended that there needs to be a review of free basic water and sanitation subsidy and water tariff structures to ensure that the shortcomings implicit in the current subsidy system do not outweigh the benefits. That the principles and practices guiding both tariff and subsidy structures and price levels should be made clear and routinely monitored.</p> <p>Recommended further that sanitation strategy should target behavioral change in relation to sanitation practices by households, rather than the provision of infrastructure alone, premised on attaining certain health outcomes. That greater consideration be given to household affordability constraints that may affect the long-term sustainability of sanitation investments.</p>	<ul style="list-style-type: none"> • Government agreed with the review of the water tariff structures and indicated that specific legislation, regulations, policies and guidelines were developed on water tariffs and a need for strengthened regulation on water tariffs and monitoring. • Government agrees and already implements this approach as the sanitation strategy focuses on both aspects, including behavioral change. In determining appropriate sanitation investments, affordability and safety considerations would need to be considered.

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2010/2011 	
<p>Recommended finally that Government consider establishing an independent National Water Regulator (that would report to Parliament) to address the policy function from regulatory function within the water service sector.</p>	<ul style="list-style-type: none"> Government supported the recommendation provided that the actual cost of the proposal and its affordability were known upfront and any lessons learnt from the regulation of bulk and retail electricity are taken into account. Government also emphasized that the Departments of Water Affairs and Environment need to continue focusing more on the support to local government with regard to water services/resources.
<ul style="list-style-type: none"> 2010/2011 	
<p>Recommended that local government should be central to setting the agenda for capacity building programmes in recognition of the fact that municipalities remain accountable for their own performance until such time as section 139 of the Constitution is invoked.</p> <p>Recommended also that that government establish an intergovernmental wide framework for understanding what constitutes a lack of capacity within the context of local government.</p>	<ul style="list-style-type: none"> Government agreed with the recommendations but stated that municipalities should participate more in the setting of the capacity building agenda. Government further indicated that it's key role was to identify and design capacity building initiatives that supported the roll-out and ensured compliance with the norms and standards. Government finally indicated that it would be difficult to implement the recommendations at this stage as only a very limited number of municipalities had operational performance management systems in place.

Annexure B

History: 1995 – 2010 Financial and Fiscal Commission Rejected Recommendations	
FFC's Recommendations	Government's Response
<ul style="list-style-type: none"> 2001/2002 	
<p>Recommended that a costed norms approach for determining the provincial equitable share be adopted by government.</p>	<ul style="list-style-type: none"> Government did not support the recommendation arguing that there was a lack of appropriate data i.e. that desired output measures, policy parameters and costs of inputs did not exist. Government argued also that calculating budgets for health, welfare and education at national level undermined provincial autonomy and could weaken accountability. Government argued further that the costed norms approach would create perverse incentives with provinces distorting their funding levels. Government argued further still that maintaining consistency in the costing of policy norms for different sectors would also be difficult to achieve. Government argued additionally that the approach would reinforce cost-raising tendencies and unrealistic expectations of additional funds. Government argued finally that the approach may also result in bias towards those services that can be costed. Government was of the view that the costed norms approach should serve as a tool for analyzing expenditure.

History: 1995 – 2010 Financial and Fiscal Commission Rejected Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> • 2002/2003 	
<p>Recommended that in assessing the Provincial Tax Regulation Bill (2001), the Bill should</p> <ul style="list-style-type: none"> ▪ specify criteria against which the Minister measure provincial tax proposals ▪ clarify the implications and procedures relating to capacity limitations on SARS in advance ▪ allow provinces maximum flexibility in determining tax rates within tax rate bands –develop guidelines with regard to tax room and equalization measures, where certain taxes have implications for the equitable share revenue pool ▪ specify regulations for dispute resolution, especially where a province may fail to reach an agreement with SARS on certain tax proposals ▪ include a clause for dealing with the impact of a proposed provincial tax or surcharge on local government finance. 	<ul style="list-style-type: none"> • Government was of the view that some of the recommendations could not be taken into account in the Act since they did not deal with specific provincial taxes but with the process to approve tax proposals.
<ul style="list-style-type: none"> • 2002/2003 	
<p>In assessing the Disaster Management Bill (2001), recommended that a more defined legal basis for the central contingency reserve be provided and that a contingency reserve in a relevant budget year be allocated for two emergency purposes, viz. macroeconomic stability and response to natural or human disasters.</p>	<ul style="list-style-type: none"> • Government was of the view that the contingency reserve is for the possibility that funds may be required for unforeseeable and unavoidable expenditure and should therefore not be confined to cover specific emergencies related to macroeconomic stability or human-made disaster. • Government stated further that it accepted responsibility for emergencies and disasters that call for resources beyond the capacity of provinces or local authorities.

History: 1995 – 2010 Financial and Fiscal Commission Rejected Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2004/2005 	
<p>Recommended that the formula used to allocate the education component of the equitable share should be revised to end the double weighting of school age children.</p>	<ul style="list-style-type: none"> Government stated that there were still good arguments for retaining the school age cohort in the education component, and that it would therefore be retained albeit at a reduced weight.
<ul style="list-style-type: none"> 2004/2005 	
<p>Recommended that for health care services the equitable share formula should be revised to take account of gender and age profile of the population in order to reflect differential needs of health care services. The national department should ensure that data on health care utilization rates for different population groups is regularly collected.</p>	<ul style="list-style-type: none"> Government stated that as part of the equitable share formula review, it had explored the possibility of using age and gender profiles, as well as taking into account health utilization rates. Data required to make such a change in the formula was not however readily available. Government stated furthermore that the proposed use of data on differential utilization for different age groups varied dependent upon the manner in which it had been collected across health institutions.
<ul style="list-style-type: none"> 2004/2005 	
<p>Recommended that the provincial equitable share formula should be revised to take into account the relevant cost disabilities of provinces and thereby address certain equity and efficiency considerations.</p>	<ul style="list-style-type: none"> Government stated that this would be difficult to implement as many services delivered by provinces do not lend themselves to succinctly defined standards to allow calculation of cost differential.
<ul style="list-style-type: none"> 2004/2005 	
<p>Recommended that Government should consider two broad options with respect to ceding the equitable share of local governments i.e. either amend the MFMA to ensure safeguards or issue guidelines to municipalities on ceding their equitable shares in line with the Constitution.</p>	<ul style="list-style-type: none"> Government indicated that it is too early to amend the MFMA and that the proposal had not taken into account the comprehensive consultation process required before municipalities cede their equitable shares.

History: 1995 – 2010 Financial and Fiscal Commission Rejected Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2007/2008 	
<p>Recommended that the hospital revitalization grant be incorporated into the provincial infrastructure grant as there is a strong convergence of purpose between the two infrastructure conditional grants, and this may improve the efficacy of the hospital revitalization grant.</p>	<ul style="list-style-type: none"> Government indicated that it was prudent to maintain separate funding streams for selected specific purpose grants in the immediate to medium term
<ul style="list-style-type: none"> 2007/2008 	
<p>Recommended that the land care and the comprehensive agricultural support programme (CASP) grants be merged into a single Schedule 4 grant as their objectives overlap.</p>	<ul style="list-style-type: none"> Government was of the view that the two grants had different objectives. The CASP targets agricultural extension services to beneficiaries of the land reform programme, while the land care programme seeks to promote the sustainable use and management of natural resources.
<ul style="list-style-type: none"> 2007/2008 	
<p>Recommended that the municipal infrastructure grant go beyond funding the B (Basic residential infrastructure), P (Public municipal service) and E (Social institutions and micro enterprise) components in the formula.</p>	<ul style="list-style-type: none"> Government did not support the recommendation as it was of the view that it was incumbent upon each municipality to make provision for operations and maintenance in their budgets according to the provisions of section 17 (2) of the Municipal Finance Management Act (2003) (MFMA).
<ul style="list-style-type: none"> 2007/2008 	
<p>Proposed that the housing subsidy formula should, as much as possible, use variables that take account of provincial disabilities and peculiarities, as this will, to a large extent, eliminate bias</p>	<ul style="list-style-type: none"> Government rejected the recommendation citing that the housing formula should recognize variation in regional cost. It would be difficult to accurately determine such variation, given that there are variations between and within provinces

History: 1995 – 2010 Financial and Fiscal Commission Rejected Recommendations	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> 2007/2008 	
<ul style="list-style-type: none"> Recommended that government revise the estimated cost of basic services (R130) per poor household per month as it is not sufficiently close to the true cost of providing basic services across a range of municipalities. Recommended that government consider raising the estimated cost to R175. 	<ul style="list-style-type: none"> Government refrained from committing to the recommendation indicating that the LES remain a subsidy that is determined in the context of affordability and after making trade-offs with other national priorities in the normal budget process.
<ul style="list-style-type: none"> 2007/2008 	
<p>Proposed that any additional costs faced by provinces and municipalities that cannot be met through the revised equitable share allocations be funded through a once-off allocation from national government.</p>	<ul style="list-style-type: none"> Government did not support the recommendation indicating that there should not be any additional cost to the state as there is no net loss or increase in the population of the country.

Annexure C

Further Work	
FFC's Recommendations	Government's Response
<ul style="list-style-type: none"> 1996/97 	
<p>Recommended that total provincial allocations be divided by means of a transparent and equitable provincial grant formula.</p> <p>Provinces should raise own revenue by imposing surcharge on personal income tax.</p>	<ul style="list-style-type: none"> Further research was needed to establish an agreed basis for assigning weights to the different components. Further investigation is required on proposed surcharge on personal income tax.
<ul style="list-style-type: none"> 2001/2002 	
<p>Proposed that the basic, backlogs and economic activity be combined into one B element, and a new conditional grant to support the eradication of capital backlogs be funded out of the equitable share.</p> <p>Revenue accruing to district municipalities from RSCs should be kept with that sphere after the reform process. Any new revenue instrument chosen be subject to local control, RSCs be converted into a general revenue source for district municipalities.</p>	<ul style="list-style-type: none"> There was a need to develop a framework around capital grants. Further work was necessary on municipal revenue instruments both in the context of RSCs and broader local government restructuring.
<ul style="list-style-type: none"> 2002/2003 	
<p>On implications of electricity restructuring for municipalities, FFC proposed consideration to introduce a 'local government levy' for large customers and that the levy be imposed by national government and be disbursed through the LES.</p>	<ul style="list-style-type: none"> Such new mechanisms needed to be investigated further, including its impact on large industrial customers.

Further Work	
FFC's Recommendations	Government's Response
<ul style="list-style-type: none"> 2010/2011 	
<p>Commission recommendation that Siyenza Manje be allocated through the Division of Revenue</p>	<ul style="list-style-type: none"> Government agrees that more transparent reporting of where funds have been used is required, but does not agree with the recommendation that Siyenza Manje be allocated through the Division of Revenue. Government argues that the funds are allocated to the Development Bank of Southern Africa (DBSA) to perform local government capacity building on behalf of national government and that one-third of the funding comes from DBSA's own revenues.