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FINANCIAL AND FISCAL COMMISSION

Briefing to the Select Committee on Appropriations

FFC Submission on the 2011 Division of Revenue Amendment Bill

9 November 2011

For an Equitable Sharing of National Revenue

Background

- Submission: response to requests from Standing Committee on Appropriations for FFC to comment on the 2011 DOR Amendment Bill
  - In terms of Part 1 (3) {1} of the FFC Act (2003) as amended
    - Provides for Commission to act as a consultative body and make recommendations to organs of state in all spheres on financial and fiscal matters
  - And Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009)
    - Requires Committees of Parliament to consider the FFC's recommendations when dealing with money bills and related matters

Outline of the Submission

- FFC's Submission on the 2011 Division of Revenue Amendment Bill is divided into following sections:
  - I. Macroeconomic Outlook and Fiscal Framework
  - II. MTBPS Spending Priorities
  - III. Division of Revenue over the 2012 MTEF
  - IV. Adjustments to Provincial and Local Government Allocations
  - V. Conclusion

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I. Macroeconomic Outlook and Fiscal Framework

BACKGROUND

- Little has changed over the last year in terms of the vulnerability of South African economy to interruptions in global recovery
- Major trading partners' slow recovery may impact sectoral composition of GDP
  - Finance, real estate and business services, manufacturing and wholesale, retail, motor trade and accommodation – likely sectors to be affected

FISCAL CONSOLIDATION

- Fiscal consolidation still important in SA context
  - Concern: government debt set to rise to 40% of GDP by 2015 after which it is expected to stabilise and decline
    - How realistic is this assumption (e.g. rising future interest rates, rising debt service costs, etc.)?
    - Debt service ratio is increasing pointing towards increasing state debt burden and towards expenditure increases being financed by debt
    - Sharp increase in foreign indebtedness, though its share remains fairly constant over the medium term

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II. Medium Term Spending Priorities

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- Job Creation
  - FFC welcomes priority shift in government expenditure towards infrastructural investment as critical vehicle for job creation
- Health and MDG's
  - SA: slow progress in achieving health MDGs
    - Based on current trends, SA will not reach MDG4, MDG5 and MDG6
  - NHI-Need for government to come up with an interim financing mechanism that is credible
- Social Security
  - 2011 MTBPS: strengthening selected child welfare programmes – early childhood development services and home and community based child care and protection

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III. Division of Revenue

Division of Revenue

	2011/12	2012/13	2013/14	2014/15	2012	Average annual growth
R billion	Revised	Medium-term estimates			MTEF Totals	2010/11 – 2013/14
National	377.8	410.3	445	474.7	1329.7	7.9%
Provincial	363.2	384.5	411	437.8	1233.3	6.4%
Equitable share	291.7	308.5	328	348.8	985.7	6.1%
Conditional grants	71.5	76	83	89	247.6	7.6%
Local	70.1	77	84	90.8	251.6	9.0%
Total	**811.1**	**871.8**	**940**	**1003.3**	**2814.6**	**7.3%**
Percentage share						
National	48.2%	46.7%	46.8%	46.7%	46.8%	
Provincial	43.9%	44.9%	44.6%	44.6%	44.7%	
Local	7.9%	8.4%	8.6%	8.6%	8.6%	
Changes to baseline						
National	-2.3	1.9	6	15.1	22.8	
Provincial	5.2	4.1	7	9.4	20.2	
Equitable share	3.2	2.8	5	5.8	13.35	
Conditional grants	2	1.3	2	3.6	6.9	
Local	0	0	2	3.5	5	
Total	**2.9**	**6.0**	**14.0**	**28.0**	**48.0**	

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MTEF and DoR Between Spheres of Government

- An additional R48 billion is proposed to be added in the 2012 MTEF
- Total expenditure is revised from R811 billion in 2011/12 to R1 Trillion in 2014/15
  - Assuming a 5% CPI at 2011 prices, this represents an average real growth of 2.3 % growth over the 2012 MTEF
  - Provinces and LG each grow moderately by 1.4% and 4% to respectively deal with the shortfall in compensation of employees and sustain the provision of FBS to the poor
  - LG share of revenue increases marginally from 8.4% to 8.6%, national share remains stable at 46.8% while provincial share declines slightly from 44.9% to 44.6% over the MTEF.
  - The impact of austerity measures sees only R48 billion added to the fiscus and the adjustment for 2011 funded partly (R2b) from national

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IV. Adjustments to Provincial and Local Government Allocations

The Proposed Adjustments to Provincial Allocations- PES

- Provinces receive an adjustment of R3.242 billion to cover higher than budget for wage agreements.
  - As provinces may not have enough funding and scope for these amounts within their budgets, including after implementing cost curtailment initiatives.
  - The risk of not funding this shortfall is that provinces would be forced to hold back on expenditure needed for other areas of service delivery.
- The Commission's concern with this adjustment remains that of government not properly dealing with personnel expenditure especially OSD
  - Personnel cost are crowding out other services
  - The extent of the shortfall is bigger than adjusted for in the Bill
- The adjustment to the FET wages should be linked to performance output and outcomes from these colleges

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IV. Proposed Adjustments to Provincial Conditional Grants

PROVINCIAL ROLL-OVERS FOR 2011

R 000s	EC	FS	GP	KZN	LP	MP	NC	NW	WC	Total
Agriculture, forestry and fisheries										
Ilima/Letsema	5 000									
CASP								10 076		
Sub-total	**5 000**	**-**	**-**	**-**	**-**	**-**	**-**	**10 076**	**-**	**15 076**
Arts & Culture										
Community Library Services	14 500			3 570	8 444					
Sub-total	**14 500**	**-**	**-**	**3 570**	**8 444**	**-**	**-**	**-**	**-**	**26 514**
Basic Education										
Technical Secondary Schools	2 688				4 444	3 386				
Sub-total	**2 688**	**-**	**-**	**-**	**4 444**	**3 386**	**-**	**-**	**-**	**10 518**
Health										
Hospital Revitalisation	29 000		55 500							
Sub-total	**29 000**	**-**	**55 500**	**-**	**-**	**-**	**-**	**-**	**-**	**84 500**
National Treasury										
IGP										
Agriculture						14 900				
Education		65 666				113 703	71 281	194 614		
Health		4 237			87 172		43 723			
Roads & Transport		47 216			174 342	173 834	98 995			
Sub-total		**117 119**			**261 514**	**302 437**	**213 999**	**194 614**		**1 089 683**
Total	**70 788**	**117 119**	**72 600**	**3 570**	**274 402**	**305 823**	**213 999**	**204 690**		**1 226 291**

Source: 2011 Divison of Revenue Amendment Bill

ADJUSTMENTS TO CONDITIONAL GRANTS FOR UNFORESEEN AND UNAVOIDABLE EXPENSES

- EMERGENCIES: A total amount of R753 million was to allow provinces to deal with recent flood damages to various infrastructure.
  - These includes allocations to:
  - Agriculture R149.5 million;
  - Housing and Education R180 million each;
  - Roads R240 million;
  - And R2.6 million to health
- The amounts set aside for disasters may not be adequate given the frequency of natural disasters

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IV. Local Government Fiscal Framework

Adjustments to LG allocations

- Local government is at the forefront of service delivery. Any adjustment in this sphere would ordinarily have immediate impact.
- The following are some of the grants that are rolled over from the 2010/11 financial year;
  - Water Services operating subsidy grant (R3.5 m for Lephalale)
  - Rural household infrastructure R26 m to fast track rural household's access to on-site water and sanitation.
  - Regional Bulk Infrastructure grant (R10.6 m)

SHIFTING AND ALLOCATION OF UNALLOCATED FUNDS

- The biggest adjustment is the creation of a new baseline allocation (for the merged municipalities of Kagisano and Molopo) (NW397) of R790 million from the DeCoG budget.
- Government also report savings of R50 million from the unallocated portion of the FMG, a portion (R11 million) is returned to the national fiscus, while the remainder (R39 million) is effectively use for new engineering internship programme.

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CONCLUDING REMARKS

CONCLUSION

- The Commission welcomes shifts in the composition of public expenditure towards investment and economic development.
- Rolled-over grants are due to under expenditure as a result of weak capacity and poor performance-therefore a need for providing capacity development and assistance to struggling provinces and municipalities in grants management.
- The Commission cautions against persistent in-year re-allocations to the Division of Revenue allocations
  - This has the positional to undermine the credibility of the transfer system
  - The Commission would like to suggest that the solution lies elsewhere and there is a need in the long term to look at the design of the grants