FINANCIAL AND FISCAL COMMISSION

Briefing on the Financial and Fiscal Commission's Submission on the 2012 Medium Term Budget Policy Statement

30 October 2012

For an Equitable Sharing of National Revenue

BACKGROUND

- Submission made in terms of:
  - Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009)
    - Requires Committees of Parliament to consider FFC's recommendations when dealing with money bills and related matters
  - 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

OUTLINE OF THE SUBMISSION

I. Macroeconomic Outlook

GDP, debt, administered prices, fiscal consolidation

II. Fiscal Framework & DoR	**III. MT Spending Priorities**	**IV. Conditional Grants**	**V. Local Government**	**VI. Actual Spending & Adjustments**
Vertical division, contingency reserve	Job creation, education, health, social development	Infrastructure, human settlements, housing disaster relief	LES, capacity, job creation	S100 interventions, ICS, SANRAL, GFIP

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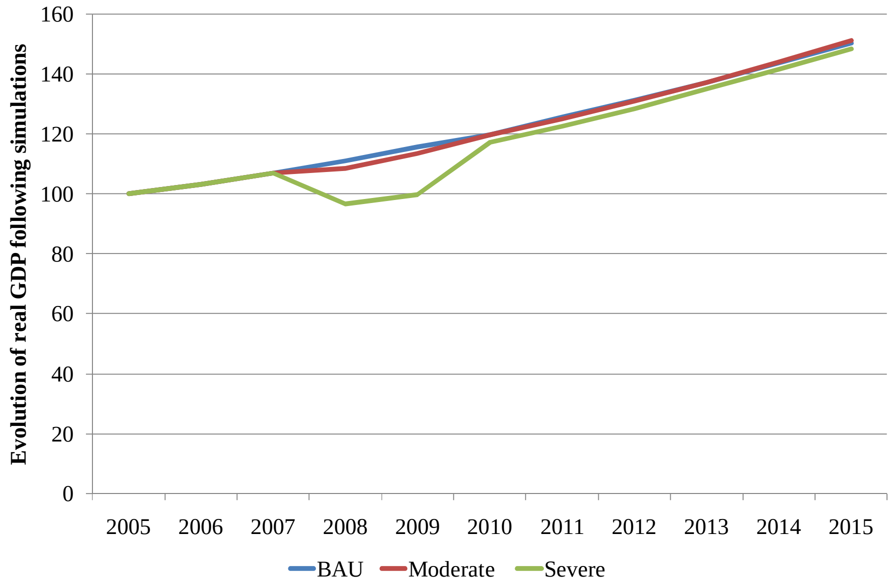
I. Macroeconomic Outlook

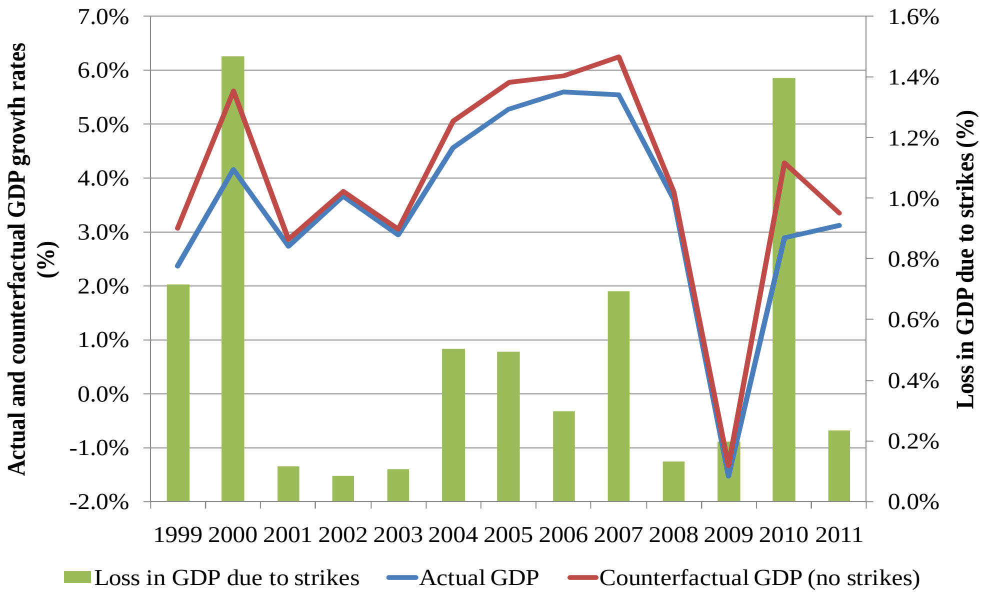
GENERAL ECONOMIC OUTLOOK

- SA economy remains vulnerable to slow global economic recovery and domestic factors
  - Downward revision of economic growth figure from 2.7% to 2.5%
    - Implications for NGP
  - Past Commission findings: SA tracking severe scenario



General Economic Outlook (cont.)

- Most volatile contributors to real GDP growth since the crisis: mining and manufacturing sectors
  - Two sectors that are most affected by strikes
    - Commission estimate: average loss in GDP due to strikes = 0.5%
    - Case for quicker Government intervention



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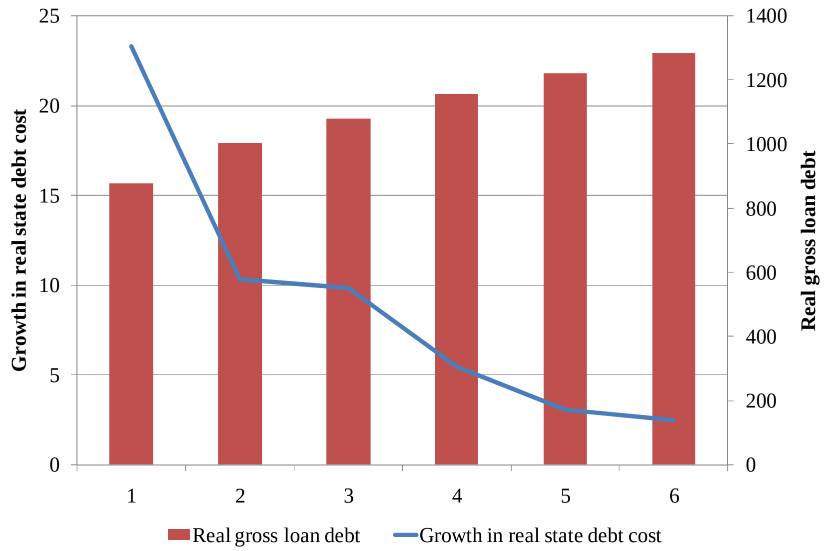
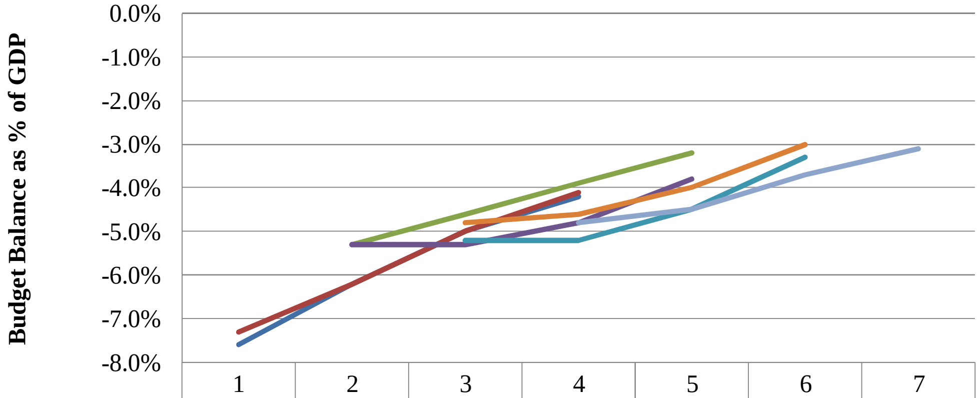
STATE DEBT

- State debt is increasing (real terms, share of exp./rev.)
- Switch programme to reduce current debt burden and limit the consolidation measures passed on to citizens
  - Slowing economic growth may put pressure on Government to extend the switch programme
    - This combined with possible higher yields may increase Government costs in the future
      - Further exacerbated by credit downgrading



FISCAL CONSOLIDATION

- Slower pace of fiscal consolidation
  - Credibility considerations
  - Commission welcomes Government’s intent to combat waste, inefficiency and corruption



	1	2	3	4	5	6	7
2009 MTBPS	-7.6%	-6.2%	-5.0%	-4.2%			
2010 Budget	-7.3%	-6.2%	-5.0%	-4.1%			
2010 MTBPS		-5.3%	-4.6%	-3.9%	-3.2%		
2011 Budget		-5.3%	-5.3%	-4.8%	-3.8%		
2011 MTBPS			-5.2%	-5.2%	-4.5%	-3.3%	
2012 Budget			-4.8%	-4.6%	-4.0%	-3.0%	
2012 MTBPS				-4.8%	-4.5%	-3.7%	-3.1%

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GROWTH-ENHANCING FISCAL CONSOLIDATION: RISKS AND OPPORTUNITIES

- Fears that if Eskom's price requests are granted, they may destabilise macroeconomic forecasts
  - Negative aspect: pricing and consequences on consumption
  - Positive aspect: investment and the resultant revenues
- Commission estimates on energy price increases
  - Minimal impact on economic growth
  - Employment
    - 0.2% increase in employment and 0.17% decrease in unemployment
      - Mainly due to increased demand in investment products
    - Employment prospects for the poor negatively affected
- Cost of providing electricity for municipalities
- Infrastructure and trade opportunities

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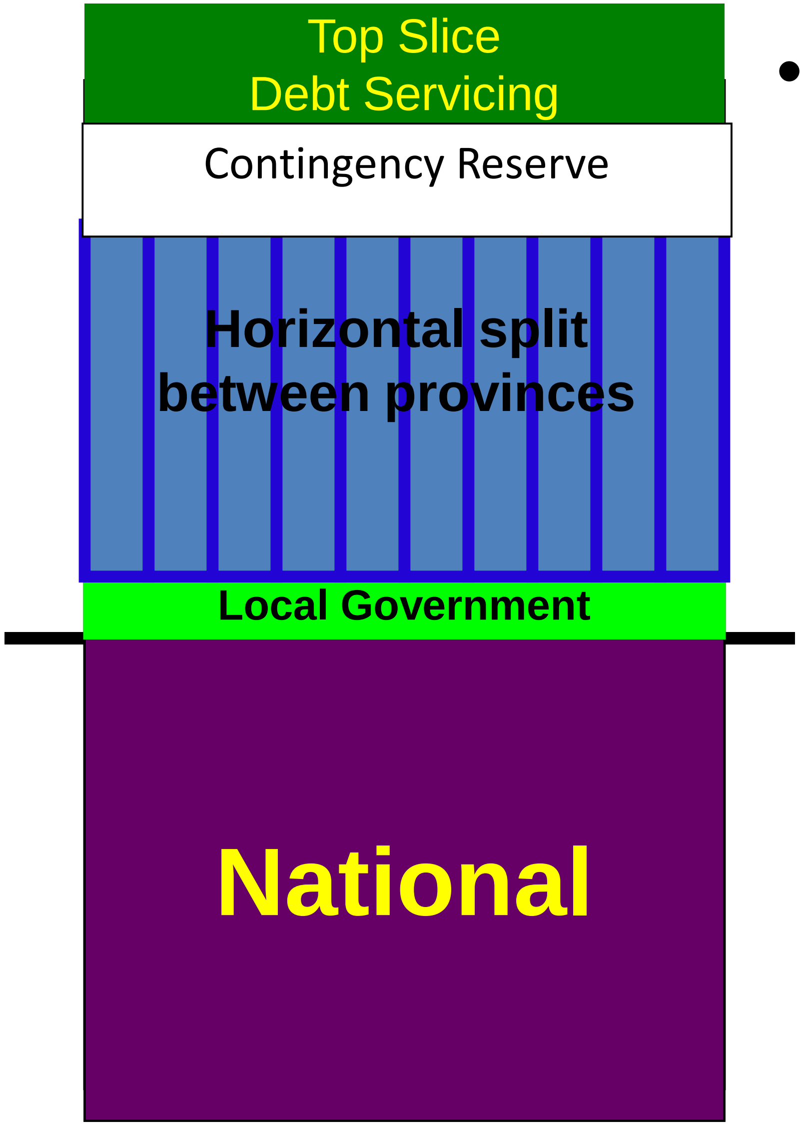
II. Fiscal Framework and Division of Revenue



- Vertical division of revenue
  - 2012 MTBPS:
    - National: downward revision of revenue by R5 billion and a higher than projected budget deficit
    - Provinces: fiscal framework is revised upwards by R26.1 bn (ICS)
    - Municipalities: revisions to baseline total R7.4 bn over MTEF

III. Medium Term Spending Priorities

JOB CREATION

- 2012 MTBPS: need to ignite job creation
  - In this regard, the Commission welcomes:
    - Government focus on active labour market policies and amended labour legislation
    - Supplementary funding: maintaining factories providing jobs for disabled workers, expansion of employment opportunities through public works and special employment programmes
    - Jobs Fund will receive over R5.5 billion over the MTEF
  - However, response from business and unions to these proposals has been muted
    - Need for intervention to encourage cooperation amongst role players

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EDUCATION

- Average annual real growth rises from 1.13% to 3.21%
  - To cover cost of wage settlement and improve delivery of school infrastructure and quality of education
- Proper funding model for operational costs of school infrastructure
- Most schools do not have conditions required for effective attainment of learning outcomes
  - Impacts learners from disadvantaged backgrounds disproportionately
- Fiscal consolidation raises concerns about capability losses from indiscriminate cutting of education expenditure
  - Commission calls for circumspection – the way cost cutting takes place in education and retrogressive spending

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HEALTH

- Allocation for health: 0.2% annual average real increase over the MTEF
- Commission concern: quality of health care in wake of fiscal consolidation
- Commission recommendations:
  - Tightening of monitoring and oversight mechanisms on procurement practises in health departments
  - HR, financial management and procurement should be devolved to hospital management to boost efficiencies and boost performance
- MDGs: need to achieve greater efficiencies and cost-savings for reprioritisation

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SOCIAL DEVELOPMENT

- Main proposal in 2012 MTBPS: reprioritise funds already in baselines towards strengthening selected child welfare programmes, improve SASSA infrastructure and systems, and to employ additional social workers
- Baseline allocation for SD decreased significantly from R513 billion in 2012 budget to R396 billion in 2012 MTBPS
  - Government identified savings of R450 million p.a. as a result of the new grants system
  - Administration costs are expected to fall by 5%, but grant beneficiaries expected to increase from 16.1 million to 17.3 million over next 3 years
    - Commission would like greater clarity from Government on what accounted for R117 billion downward adjustment
- Commission concern: provincial departments of SD are internally prioritizing away from transfers to NGOs to CoE and G&S

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IV. Proposed Changes to Conditional Grants

PG Conditional Grant Issues

- Commission supports government efforts to improve CG spending in provinces
  - Supports essence for a performance/demand driven provincial grant framework but:
    - Can entrench inter-provincial inequities and jurisdictional disparities
    - New approach to be implemented with caution
    - Capacity support to provinces to implement new system

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LG Conditional Grant Issues

- FFC supports efforts to protect LG CGs in tight fiscal framework
  - Fundamental in rolling-out services to communities
- Welcomes Government efforts to improve monitoring of grant spending and developmental impact
- Improved spending does not necessarily result in improved outcomes
  - Need to monitor and evaluate conditional grant outcomes
  - S154: balancing capacity with accountability
- Punitive fiscal measures may be counterproductive
  - Does not remedy root causes of under spending
  - Commission recommends need for comprehensive analysis of conditional grant under spending

GENERAL COMMENTS

- Commission raises serious concerns with infrastructure grant framework at both PG and LG
  - Continual proliferation of grants
  - Unsuccessful piece-meal interventions
  - Shortcomings of national government department grant administration (transferring officer)
  - Welcomes holistic review of CG framework and will engage with all relevant stakeholders

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V. LOCAL GOVERNMENT POLICY ISSUES

LOCAL GOVERNMENT EQUITABLE SHARE

- Commission participated at a technical level with LES review
  - Generally supports structure of new formula
  - Will discuss details on implementation with government
  - Commission wishes to highlight
    - Important to link LES to conditional grant framework
    - Poor municipalities need capacity to spend additional funds (Commission's past recommendations)
    - Appropriate measure for revenue capacity in formula

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DEVELOPING THE BUILT ENVIRONMENT

- Commission supports Cities Support Programme
  - Funding constraints in urban municipalities
    - Lower levels of grants with tight fiscal framework
    - Constraints in leveraging credit finance with recent downgrades
    - Diminishing surpluses on operating budgets
- Recognises Government efforts to improve revenue management practices

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OTHER LG POLICY ISSUES

- Welcomes initiatives to create innovative jobs at LG level
  - Opportunities in solid waste management services
- Capacity challenges continue at LG level
  - Holistic to encompass individual, organisational and institutional aspects
- 2011 Census
  - Appropriate phasing-in of grant allocations
  - Firm decisions on frequency of census and alternatives to 10-year data updates

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VI. Review of Actual Spending and Adjustment Estimates

SECTION 100 INTERVENTIONS

- Commission welcomes progress made by government i.t.o. S100 interventions
  - Short-term improvement in provincial finances
  - Regulation vacuum for interventions
  - Framework for interventions required
    - Parameters for interventions
    - Clarify roles, responsibilities and accountability across all stakeholders
    - Clear set of timelines

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ADJUSTMENT ESTIMATES

- Adjustments driven by ICS
- Commission welcomes approach of shifting expenditure towards capital investments over MTEF
- AFCON expenditures to benefit certain cities and higher income earners
- Government guarantees should be monitored closely
- Notes government efforts to improve expenditure on refurbishments and rehabilitation of LG infrastructure
  - Repairs and maintenance spending continues to be poor

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ADJUSTMENT ESTIMATES (CONT.)

- Financial viability of SANRAL depends on implementation of e-toll
  - Gauteng should be used as an example for roll-out of e-tolls to other provinces
  - NDoT should develop guidelines for e-tolling facilities
- Commission notes implementation of S216(2)
  - Supports punitive measures for maladministration and resource wastage with individual accountability
  - Should form last resort of action
  - Need to emphasise S154
    - Initial support and remedial efforts need to be made explicit

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VII. Concluding Remarks

CONCLUSION

- 2012 MTBPS reflects major thrust and spirit of recommendations that FFC has been making since the onset of the global crisis
  - Growth and employment in SA can only be achieved by combining fiscal consolidation and investment into future growth
    - Crafting the plan is difficult and implementing the plan will be even more so
- Given constraints on growth of social expenditure and infrastructure spending, it is critical that developmental impact be substantially enhanced
  - Reduce waste and unproductive expenditure in favour of equity- and growth-enhancing expenditures
  - Reduce underspending masquerading as savings
- Enabling legislation for S100 interventions
  - Current environment undermines accountability and oversight frameworks and sustained capability building

THANK YOU.

Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685
www.ffc.co.za
Tel: +27 11 207 2300
Fax: +27 86 589 1038