

Treasury has restructuring reservations

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Cape Town – The national treasury has broadly rejected the recommendations by the Financial and Fiscal Commission for an overhaul of the equitable share formula used to allocate funds to provinces.

But it has decided to increase allocations from R105,3 billion in 2001/02 to R133,1 billion in 2004/05, giving an annual growth rate of 8,1 percent.

In the medium-term budget policy statement the treasury said that government had “reservations about the implicit suggestion in the commission’s proposals regarding translating the constitutional provisions relating to basic services into a formula for dividing resources among the three spheres” of government.

“It prefers, instead, to leave this to political judgment informed by rigorous technical analyses and to provisions of legislation approved by parliament.”

This did not, however, preempt the outcome of discussions with the commission about its proposals aimed at allowing the provinces to meet their constitutionally mandated obligations in general and the provision of basic services in particular.

The formula had, however, been adjusted slightly to reflect shifts in spending on social services in the provinces and new

data. This involved a slight shift towards welfare spending, mainly to sustain the child support programme, at the expense of the economic component and took into account the average provincial educational enrolment for the past three years.

A draft Division of Revenue Bill would be published in November to strengthen intergovernmental budgeting and provide a complete picture of fiscal transfers to the provinces and local government.

Apart from an increase in the housing subsidy allocation and higher HIV /Aids grants, “no significant changes are made to the conditional grant allocations” although there were major changes in the policy framework underlying some of the grants, especially for health and housing.

The health grants were the largest “and probably the most complex”, covering integrated nutrition and training.

Allocations for infrastructure grants would continue to grow at a “robust” pace and, given the lead times involved, would total R2,8 billion by 2004/05.

The equitable share for local government was expected to rise by an average 13,9 percent a year over the next three years to R5,7 billion by 2004/05.

Conditional grants to local government for infrastructure, capacity building and restructuring would grow by an average of 17 percent a year to R4 billion by 2004/05.