

Press Release

2011/2012 FINANCIAL AND FISCAL COMMISSION SUBMISSION ON THE DIVISION OF REVENUE

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The Financial and Fiscal Commission released its Annual Submission for the Division of Revenue 2011/12 in compliance with Chapter 13 of the Constitution, the Financial and Fiscal Commission Act (2003) as amended, the Intergovernmental Fiscal Relations Act (1997) and related legislation.

The Submission addresses four topical and interrelated areas. These are as follows: economic and fiscal outlook, social assistance reform, operational efficiencies, and revenue enhancement at sub national level and fiscal issues in urban public transport.

The background to this year's submission is that the country is recovering from the deepest and most serious economic crisis to affect the world since the Great Depression. The global recession hit the local economy in severe ways. The economy shrank by more than 3 percent from Q4 of 2008 to Q3 of 2009 (like many, signs of recovery started in Q4 2009). Some sectors experienced very big hits: mining output fell by about 7 per cent, manufacturing by over 12 percent. About a million people lost their jobs. The budget balance moved from a surplus of 1 per cent of GDP in 2007/08 to a deficit of 7.3 percent in just two years. All revenue sources shrunk as well. This greatly assisted government in cushioning the economy against an even larger decline in output and employment.

The Financial and Fiscal Commission's research supporting the recommendations for the 2011 division of revenue indicates that the relatively large social grants system smoothens household consumption in many positive ways. The overarching theme is about how a robust set of pre-crisis policies and institutions have ensured effective absorption of an expanded budget and benefited large numbers of children in a relatively short period of time.

The Commission's view is that vulnerable groups, especially children, the elderly and disabled should not suffer disproportionately because of the recent economic crisis and the necessary fiscal adjustment that should follow. This submission explores possibilities and options open to government to address the matter of cushioning the vulnerable groups whilst at the same time laying the foundations for future growth and development.

The Commission recommends that government should continue to strive for fiscal consolidation through limiting the growth in entitlement spending to those programmes that have demonstrably worked while refocusing expenditure to ensure better coordination and to deepen access by focusing on improved service quality. In particular, the Commission recommends that in the short term the government should continue to consolidate social assistance programmes aimed at cushioning children and the elderly especially the child support grant and the old age pension. In pursuing this goal, government should avoid measures that compromise the relative simplicity of the social assistance system especially when contemplating reform options. Rather, government should pilot conditional cash transfer and workfare programmes on a smaller scale and continue to evaluate them in order to expand successful pilots.

At this stage, government should avoid universal income grants, as these are currently unaffordable and would need to be accompanied by a broader restructuring of the entitlement system. In the medium to long-term, the Government should introduce a block grant for education, health and social development to fund clearly defined and costed outcomes in these areas as well as undertake independent cost effectiveness and quality reviews (in both the public and private sectors) of education, health and the social wage.

The tighter economic environment of the current budget cycle has also focussed increased attention on concerns about the institutional and operational efficiencies and effectiveness of several of the fiscal and revenue instruments of the sub-national government spheres in particular. It is imperative that, as the global recession recedes, government pursues innovative recovery policies that are inclusive and supportive of those below the poverty line and that sustain service delivery, especially within the local government sphere.

In line with the above, and with respect to the design and administration of conditional grants, the Commission recommends refinements to the procedures of introducing and terminating grants. Government should make transparent the criteria for allocating conditional grants. This should help to ensure results-based accountability. There is a need to introduce more emphasis on non financial data reporting and linking outer year allocations to independently evaluated performance information and the gazetting of expected deliverables.

Despite having access to a large number of own revenue sources, municipalities in South Africa are generally perceived to be hard pressed for revenue or fiscally stressed. The extent of the problem is not only confined to small and rural municipalities but also manifest profoundly within bigger cities. To improve the general performance of municipalities with regard to revenue improvement and collection, the Commission recommends adoption of standard indicators to detect fiscal stress, legislation of revenue collection as one of the key performance areas against which to assess overall municipal performance and subjecting the performance of revenue enhancement programs to empirical tests that cover changes in the effective tax rates, tax burdens for all service users, the total revenue yield, economic efficiency and overall fairness.

Linked to this, the Commission supports the on-going review of the Local Government Equitable Share formula. It is the Commission's view that as a matter of urgency (in view of the fact that the results of the review may only be ready for the 2012 budget) the Institutional component of the Local Government Equitable Share formula should be reviewed with a view to making assist poor municipalities. There is also a need for reforming completely the revenue raising component.

Another focus area for the Commission's submission is on the regionalisation of municipal services. The general recommendation is that in the absence of an assessment of the specific performance challenges that the different municipalities face in implementing the functions listed in part B of schedules 4 and 5 of the Constitution, approving a blanket regionalisation approach, as proposed in the 17th amendment to the Constitution should be approached with caution. Current legislative provisions allow for alternative and creative service delivery arrangements that do not call for a dilution of local government executive authority.

Finally, there are some pressing intergovernmental fiscal issues in urban public transport that the Commission draws government's attention to. In particular, the Commission urges government to move decisively on the funding streams that will contribute to the Municipal Land Transport Fund as delays could negatively affect the financial position of affected municipalities. The current mechanisms and basis for distributing transport subsidies should be reviewed by the Department of Transport, National Treasury and other key stakeholders in order to promote the efficiency of urban transport and land use systems, taking into account equity and distributional effects on households. The potential financial implications resulting from the promulgation of the National Land

Transport Act on municipalities should be examined by the Department of Transport and the National Treasury and dedicated funding streams for public transport identified.

As has always been the tradition with the Commission's work, this year's submission has relied on collaborative input from various partnerships. There have been rigorous consultations with the Commission's primary stakeholders from the provincial and national legislatures, expressed through the finance committees, to government, primarily through the Budget Council and Budget Forum, and to local governments, through the South African Local Government Association. The Commission further thanks the Minister of Finance, Hon. Pravin Gordhan for continuing with the robust engagement that has characterized interaction between the two institutions during the preparation of this submission.



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www.ffc.co.za

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