



Financial and Fiscal Commission: Submission on the 2011 Appropriations Bill

Presentation to the Standing Committee on Appropriations

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For an Equitable Sharing of National Revenue

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Contents

Introduction.....	3
1. Commission’s Approach to this Submission.....	3
2. Relationship between the Appropriations Bill and CMS	3
3. Commission’s definition of CMS.....	4
4. Locating the CMSs within the Appropriations to determine the extent to which they are funded.....	5
4.1. Appropriations and Constitutionally Mandated Basic Service.....	7
4.2. National Government and the extent of funding towards CMS	9
4.3. Provincial sphere and the extent of funding towards CMS	11
4.4. Local Government and the provision of CMS.....	13
4.5. Government policy priorities in the utilization of the national revenue fund financial year 2010 - 2012	14
5. Conclusion.....	Error! Bookmark not defined.

Introduction

This submission on the Appropriation Bill¹ is made in terms of sect 4 (4) 2 of the Money Bills Amendment Procedure and Related Matters Act of 2010. The section requires Parliament to consider any recommendations of the Commission in processing this Bill.

The Commission was specifically invited by Standing Committee on Appropriations to comment on the Bill in respect of Constitutionally Mandated Services (CMS).

1. Commission's Approach to this Submission

The submission focuses on the following

- The Commission's interpretation of CMSs in relation to the Appropriations Bill
- Analysis of the specific and special funding of priorities over the period 2007 to 2011.
 - Assessing the extent to which appropriations address CMS among the three spheres of government over the past five years
 - Analysis of a within-sphere financing of CMS

2. The Relationship between the Appropriations Bill and CMS

The object of the Bill is to “appropriate money from the National Revenue fund for the requirements of the State...”. From the Commission's perspective the sharing of nationally raised revenue needs to be balanced against the assigned Constitutional roles of all the three spheres of government. There is thus a link in the amount to be appropriated and the constitutional mandates of the three spheres. Technically there is a need to balance the share of additional funding across spheres in line with the identified outcomes and priorities through the Bill.

¹ The Appropriation Bill is piece of legislation that serves to appropriate money from the National Revenue Fund for the requirements of the national government in order to provide for subordinate matters incidental thereto.

The Bill sets out clearly appropriations for the requirement of the State for the forthcoming financial year, in this case 2011/2012. Therefore the Bill is focused on dealing with a single year of appropriations that are to be spent through specific votes across the three spheres.

3. Commission's definition of CMS

In its submission for the 2004-2007 MTEF the Commission identified selected services listed under the Bill of Rights, Chapter 2 of the Constitution as constitutionally mandated basic services (CMBS) which form part of the broader CMS for which the State needs to ensure progressive realisation.

An identification of these services and the spheres responsible for them becomes important if we are to locate them within the various votes in the Appropriations Bill. This will further reflect the extent to which government is funding these CMSs. The identification of these services is however complicated by the high degree of concurrency which is further compounded by the general lack of national norms and standards in a range of these services. Within these concurrent functions there is also a lack of a clear delineation of roles and functions across and among spheres of government. The complexity that these factors bring in, would therefore make it difficult to assign accountability in the delivery of CMS to citizens where it is due, for example with services like housing and education where policy is made in one sphere and implementation generally happens in another.

Constitutionally Mandated Services are clearly defined and assigned to various sphere, followed by Constitution. The mandates linked to the Bill of Rights (CMBS) according to the Commission's submission represent the basic core of what key programmes should receive special focus within the broader CMS if the lives of the people are to be improved. For this report it is important to consider that all constitutional mandates need to be funded. Over and above this the Commission recommended a need to ensure a

correct balance between the delivery of these services and the considerations listed in section 214(2) a-j of the Constitution.

It is important to emphasise that government revenue should be used for purposes of the provision not only of CMBS but CMS in general. This means that other services such as infrastructure and economic development, the criminal justice system, security and protection, and administrative services are equally important and therefore should receive equal attention as the basic services if the rights of South Africans and the obligations of the State are to be realised.

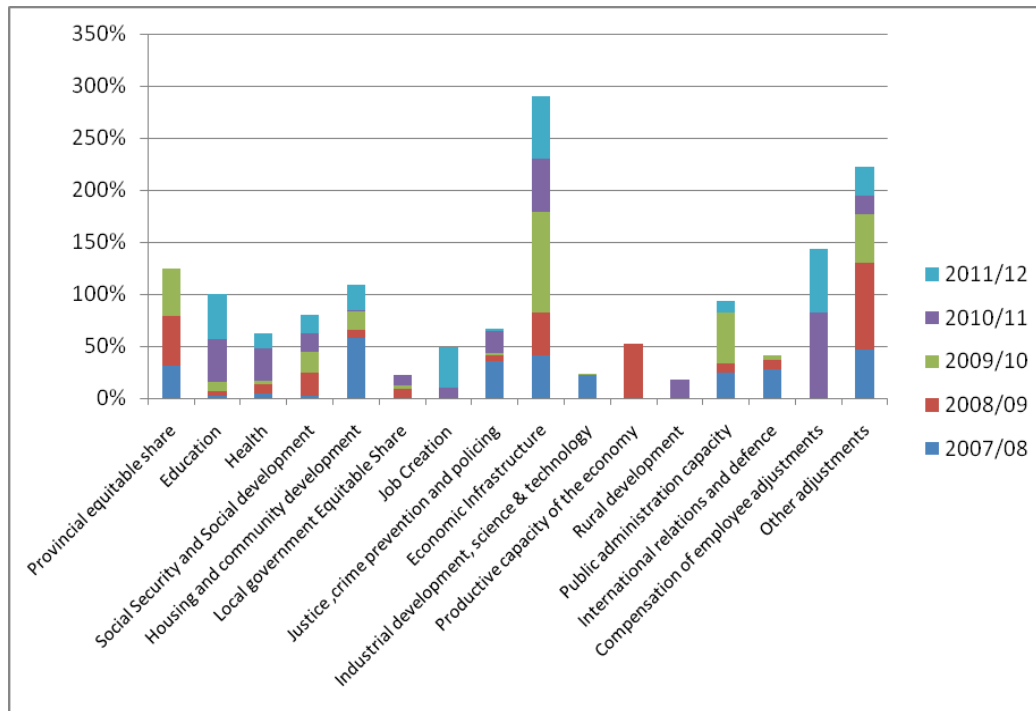
While the Commission delineated the Constitutionally Mandated Basic Services per sphere identifying for provinces, school education, adult basic and further education and training (before it was devolved to national sphere), primary and secondary health care, social security, and housing programmes this should in no way be interpreted to imply that the other functions assigned to provinces are less important.

Finally the Commission has in the past proposed an approach for assessing government progress on these services. The approach suggests that progressive realisation should be evaluated in terms of policy outcomes through the use of financial inputs of service delivery. Such a progressive realisation was acknowledged to be bound by the limits of resource availability.

4. Locating the CMSs within the Appropriations to determine the extent to which they are funded

Figure 1 shows that with the exclusion of the category “Other Adjustments”, a total of 15 priority areas have been funded in the past 5 years of appropriations, with minor inconsistencies.

Figure 1: Priority funding over the 2007-2011 MTEF periods



For the purpose of this submission spending items or programmes that receive special preferential funding over and above baselines from additional revenue are analysed. For the period reviewed, spending items that receive the highest attention include economic infrastructure development (R48.8 billion), education (R8.9 billion), health (R6.1 billion), social development (R8.4) and housing and built environment (R11.5 billion). The least prominent and non sustained priorities over the review period are rural development (R1 billion), productive capacity of the economy (R3.2 billion) and industrial development, science and technology (R1.6 billion). Over the past 5 years of appropriations government has been adding around R20 billion per annum except for 2009 where R68 billion was added. This substantial increase was brought about by the R30 billion which was granted to Eskom. The additional appropriated amounts ranged from R17 billion in 2007/08 growing to R20 billion in 2011/12.

Over the past five years, government has appropriated additional allocations to key CMSs such as education, health and social security. This has been significantly supplemented by programmes that stimulate economic development such as

infrastructure development and job creation. The latter are, in their own, enablers or catalysts that lead to improved access to CMSs.

4.1. Appropriations and Constitutionally Mandated Basic Service

To get a handle on the extent to which government funds CMSs requires a tracking of the priorities that government funded and classifying these into CMS and non CMS.

While CMSs are explained in the early part of this document, there is a need to give recognition to certain priorities that may not be deemed CMSs but contribute directly or accelerate the rate of achievement or access to CMSs. These as per table 1 and 2 are categorised as CMS-enablers. An example of a CMS-enabler is economic infrastructure funding and job creation which can be deemed a catalyst to economic development. These categories of priorities have a direct influence in lifting the poor out of poverty, affording them jobs and ensuring increased tax collection from personal income tax (PIT) and thus contributing to the fiscus. An increased fiscus would in return ensure that CMSs are progressively realised quicker.

There are also appropriations that can be out rightly categorised as non-CMSs; these include overfunding for noncore administrative personnel.

Table 1: Appropriations and funded priorities 2007 to 2011 MTEF

R million	2007/08	2008/09	2009/10	2010/11	2011/12	Total 2007-2011
CMBS						
Provincial equitable share	3 570	5 903	5 585			15 058
Education	342	495	1 131	4 150	2 807	8 925
Health	600	1 100	404	3 121	918	6 143
Social Security and Social development	270	2 705	2 510	1 785	1 164	8 434
Housing and community development	6 623	1 004	2 119	100	1 634	11 480
Local government Equitable Share		1 114	491	900		2 505
Total CMBSs	11 405	12 321	12 240	10 056	6 523	52 545
CMBS Enablers						
Job Creation				567	2 301	2 868
Justice ,crime prevention and policing	1 636	400	750	1 180	100	4 066
Economic Infrastructure	1 943	2 492	37 988	2 872	3 532	48 827
Industrial development, science & techn	1 052		561			1 613
Productive capacity of the economy		3 180				3 180
Rural development				1 010		1 010
Total CMBSs Enablers	4 631	6 072	39 299	5 629	5 933	61 564
Non CMBS						
Public administration capacity	444	478	8 159		2 058	11 139
International relations and defence	508	474	766			1 748
Compensation of employee adjustments				10 000	11 413	21 413
Other adjustments	844	4 652	7 743	2 145	5 185	20 569
Total Non CMBSs	1 796	5 604	16 668	12 145	18 655	54 868
Grant Total	17 832	23 997	68 207	27 831	25 927	168 978

Table 2: Prominence of priority over time

R million	2007/08	2008/09	2009/10	2010/11	2011/12	Average	Shares
CMBS Targeted							
Provincial equitable share	31%	48%	46%	0%	0%	25%	9%
Education	3%	4%	9%	41%	43%	20%	5%
Health	5%	9%	3%	31%	14%	13%	4%
Social Security and Social development	2%	22%	21%	18%	18%	16%	5%
Housing and community development	58%	8%	17%	1%	25%	22%	7%
Local government Equitable Share	0%	9%	4%	9%	0%	4%	1%
Share of CMBSs	64%	51%	18%	36%	25%	31%	
CMBS Enablers							
Job Creation	0%	0%	0%	10%	39%	10%	2%
Justice ,crime prevention and policing	35%	7%	2%	21%	2%	13%	2%
Economic Infrastructure	42%	41%	97%	51%	60%	58%	29%
Industrial development, science & techn	23%	0%	1%	0%	0%	5%	1%
Productive capacity of the economy	0%	52%	0%	0%	0%	10%	2%
Rural development	0%	0%	0%	18%	0%	4%	1%
Share of CMBSs Enablers	26%	25%	58%	20%	23%	36%	
Non CMBS							
Public administration capacity	25%	9%	49%	0%	11%	19%	7%
International relations and defence	28%	8%	5%	0%	0%	8%	1%
Compensation of employee adjustments	0%	0%	0%	82%	61%	29%	13%
Other adjustments	47%	83%	46%	18%	28%	44%	12%
Share of Non CMBSs	10%	23%	24%	44%	72%	32%	

Source: Generated from DORB Annexure E1 tables

The table above shows that for the past five years of appropriations, the largest share of additional funding went into CMSs enablers at 36% mainly driven by economic infrastructure. The second largest share went to non-CMSs at 33% while the balance 31% share was directly for CMSs.

A direct funding of CMSs could be in the form of a cash grant which on its own is not sustainable unless there is enough available revenue for sustained period. Therefore it makes sense to look at the category of CMS and CMS enablers as one broad category in understanding the relationship between the funded priorities and basic constitutional

rights. From this perspective it can be argued that 67 % of appropriations in the last 5 years have directly and indirectly benefited CMS.

The most prominent funded priority as a share of the total funded priorities is economic and infrastructure development, funded at 29%. This has laid a foundation to some extent for government's new growth path of accelerating growth and job creation.

The section below gives a perspective of the extent to which CMS are funded and dealt with in the various spheres.

4.2.National Government and the extent of funding towards CMS

Justice, Crime Prevention and Policing

Justice, Crime Prevention and Policing have been one of government's top priorities. Between 2007/08 and 2010/11 financial year additional funds were appropriated to cater for the construction of courts, upgrading of information technology infrastructure and additional personnel for Police to boost visible policing. In 2011/12 an amount of R100 million is added in the area of Policing to increase personnel that will support more visible policing and training. It is important to note that it is impossible for individuals to enjoy their constitutional rights if this area of National CMS is dysfunctional. The Criminal Justice System is also equally important as social justice which is what the Constitution indicates in the Bill of Rights.

Higher Education

Between 2007/08 and 2009/10 additional funding for higher education was appropriated towards higher education subsidies to cater for increases in higher education costs and enrolments. In 2010/11 and 2011/12 spending is prioritised for FET Colleges and skills development. This programmes received an amount of R 2.027 billion in 2011/12. Of this amount R5 million is prioritised for teacher bursaries and R2.022 billion is added for FET Colleges grant and skills development. The FET College grant caters for additional

funding for FET College function which is currently being shifted from the provincial to the national sphere.

While the higher education system is being prioritized by government, challenges remain with regards to student equity, graduation rates and enrollment rates in scarce skills such as science, engineering and technology. One of the challenges is to improve the number of students who complete their studies and graduate.

With regards to the shifting of FET Colleges function shift to the national sphere, it is important to note that the basis for the allocation of funds to this function is not clear and this will have an impact in the division of revenue between spheres of government. The Department of Higher Education as a new department would also have to deal with its capacity issues in redirecting the system to respond to the needs of the economy and realigning the work of the SETA's with the broader objectives of government including the efficient utilization of resources in the skills development arena. It is acknowledged that the higher education sector has produced substantial increases in the number of unemployed graduates.

Social Protection

Social protection has been given priority by government. An amount of R1.164 billion is added to the fiscus in 2011/12 financial year. This amount is directed towards funding social grants, mainly the increases in the value of social grants and the extension of Child Support Grant to children up to 18 years. Also included are unemployment insurance, occupational compensation and the road accident fund.

The case for directing funding and maintaining the existing social grants is very strong as they effectively assist government in reducing poverty. However, the expansion of these grants should be combined with developmental social welfare services that are aimed at rehabilitation and integration of persons back into social and economic life, foster independence while increasing opportunities for development. The Commission is aware that there are moves to reform the social security system but has not yet been officially

apprised by government on the form that the reforms will be taking. In this respect the Commission will await direction from the Government.

4.3. Provincial sphere and the extent of funding towards CMS

For the provincial sphere, most if not all its functions are duly assigned by the Constitution and can be expected to be directed to CMS's. Since they raise little own revenue and are in the main implementers of national policies in one form or another.

For the period under review, basic education and health which are an important constitutional mandate that respectively contributes to human capital investment and improved life expectancy and healthy society receive consistent funding. A part of the equitable share goes to funding personnel this in the main to keep up with inflation related increase to salary adjustments and lately (disturbingly OSD). For this category of personnel expenditure, the return on spending is directly linked to the need in provinces.

Provincial Investments in Social and Economic Infrastructure

The extensive infrastructure expenditure programme that government is currently undertaking is aimed at a country-wide improvement and increment of both the efficiency and network of infrastructure. These investments are targeted at both economic infrastructure (which includes electricity, water supply, telecommunications, roads, railways and ports) and social infrastructure (which includes schools, health, sanitation, social welfare facilities and access roads).

The Commission notes with concern the persistent provincial under expenditure on infrastructure budgets for year 2010/11. Of the R11.3 billion made available to provinces through the infrastructure grant to province (IGP), R2.5 billion was initially withheld and subsequently stopped by the National Treasury due to under expenditure. Other grants that were stopped include the Hospital Revitalisation Grant and Comprehensive Agriculture Support Programme. The opportunity cost of under spending in infrastructure is the foregone CMS that could not be funded due to the resource constraint and reflects technical inefficiency, given that we still have massive backlogs. From an

allocation point of view resources are allocated to the correct areas but are inefficiently utilised by the recipients.

There are challenges in provincial infrastructure delivery that have been in the system for some time. These challenges range from planning, project appraisal, financing, lack of options analysis in the delivery of infrastructure to lack of capacity in the delivery departments such as the Provincial Public Works. Challenges in supply chain management and procurement, including corruption, also contribute to sluggish expenditure and by implication delivery of quality projects. Although the Commission advocates for increasing budget allocations for economic and social infrastructure, expenditure by government should ensure that it produces high quality physical infrastructure that matches the rate of investments. It is thus important that transferring national departments responsible for these grants take steps to address the capacity issues associated with the implementation of programmes funded through their conditional grants in order to reduce the disturbing trend towards withheld funds.

The government has to use the fiscal position to generate social infrastructure, with a special emphasis on the rural areas. Linked to this is that State Owned Enterprises (SOEs) should also consider investing in provinces that lack economic development and suffer from acute poverty (e.g. Eastern Cape and Limpopo) through infrastructure and labour intensive projects as this will assist in improving regional economic development.

With respect to human settlements development and investments, Government has made considerable progress in the delivery of housing and infrastructure but much still needs to be done to achieve better developmental outcomes and to keep pace with increasing backlogs especially in cities. There is therefore a need for improved efficiency and coordination of investments in the built environment. An emerging challenge is that there still an imbalance in housing and infrastructure delivery taking place in rural areas, because urban biased fiscal instruments ignore rural challenges. There is therefore a need for a differentiated or asymmetric approach in funding rural infrastructure and the strengthening of community based delivery mechanisms.

4.4. Local Government and the provision of CMS

CMS in the Local government sphere include, inter alia, potable water, electricity, public transport, sanitation and refuse removal. Local authorities are constitutionally mandated to provide these services adequately and efficiently. However, backlogs of varying magnitude exist across the spectrum of local authorities in the provision of such basic services. In some cases poor delivery of such services has given rise to many protests. The government has continued to place these basic services on its priority list to eradicate backlogs as well as covering new ground.

In the local government sphere the CMS are funded through the LES. However, it must be noted that the local government sector generates its own revenues to fund the CMS. In fact the bulk of funding for CMS is from municipality own revenues. From the fiscus, funding priorities through the LES have featured consistently up to the 2010/11 financial year, albeit with significant fluctuations across the years (see Table 1 below). In 2010/11 the LES funding amounted to R900 million from R491 million in the previous financial year (2009/10). In 2008/9 funding under the LES was R1114 million in 2008/9. These fluctuations do not augur well for eradicating backlogs and covering new additional demands for basic services. In addition, it should be noted that additional priority funding through the LES happened only once for the past five years in 2009/10 appropriations.

Table 1 Local Government and Funded Priorities

	2007/08	2008/09	2009/10	2010/11	2011/12
LES	825*	1 114.00	491.00	900.00	
Municipal infrastructure, transport and water schemes	1 853.00	604.00	nil	nil	840.00
Public transport, roads and rail infrastructure				468.00	
Regional bulk infrastructure				54.00	
Green economy					200.00
Municipal disaster grant					470.00

*This figure is for Municipal equitable share and siyenz

Priority funding for CMS from the local government perspective has also been channelled through other infrastructural grants, namely the “municipality infrastructure, transport and water schemes”, “public transport roads and rail infrastructure” and “Regional bulk” infrastructure grants. These funding windows have played a critical role in improving the provision of basic services. They have also directly and indirectly contributed to job creation, poverty alleviation and amelioration of inequalities in the society. Whereas these funding windows play a critical role, their inconsistency over the years is cause for concern. For example, the municipality infrastructure, transport and water schemes was a priority in 2007/8, 2008/9 and 2011/12. In 2009/10 and 2010/11, it was not in the priority list at all. On the other hand, Public Transport, roads and rail infrastructure and regional bulk infrastructure featured only in 2010/11

4.5. Government policy priorities in the utilization of the national revenue fund financial year 2010 - 2012

In this year’s Division of Revenue Bill, government identified top five policy priorities for the 2011/12 financial year namely;

1. Enhancing the quality of basic education and skills development.
2. Improving the quality of health care and infrastructure;
3. Investing in new infrastructure and proper maintenance of social and economic infrastructure networks;
4. Acceleration of job creation;

A sectoral categorization of the budget priority table indicates that a total additional R94 billion was added to the fiscus this year. This shows that the government responded well to the recent recession when it allocated adequate funding towards maintenance of social expenditure in the previous financial year.

5. Conclusion

The biggest concern for the period under review is that compensation of employees/personnel costs have surged and remain the biggest funded item on the budget. The conclusion to deem it a concern is that there are serious service delivery challenges out of which the amount spent on personnel does not yield the required outcomes.

One of the other challenges and concern for the IGFR is sustained funding of priorities over the MTEF periods. Perceptively, an Appropriation Bill serves to confirm and guarantee allocations for the first year of the MTEF. Therefore the other outer two years may be compromised as new priorities emerge in the following years of appropriation. There is therefore a need to ensure that funded priorities are sustained over the MTEF with their projected expenditure.

A combination of the rise in personnel expenditure with low output and inconsistent ongoing priorities especially for non CMSs will pose a threat to the progressive realisation of basic services to the poor. The situation is also not going to be easily diverted, especially that the amount of discretionary finance far outstrips the conditional one.

The Commission's analysis of the appropriations by government over the past five years including 2011/12 is that government does significantly fund Constitutionally Mandated Services both directly and indirectly. It is further the Commission's view that while resources are generally efficiently allocated to priority areas, there is an urgent need for government to improve the technical efficiency with which resources are spent if these appropriations are to contribute to the lives of all South Africans.