FINANCIAL AND FISCAL COMMISSION

SUBMISSION ON THE 2014 DIVISION OF REVENUE BILL

04 March 2014

For an Equitable Sharing of National Revenue

OUTLINE

- Submission made in terms of Chapter 13, Section 214 (2) and Section 9 of the IGFR Act (1997)
- Layout of the Submission
  1. General and specific comments on the 2014 division of revenue bill
  2. National fiscal framework
  3. Provincial government fiscal framework and adjustment to conditional grants
  4. Local government fiscal framework
  5. Government response to Commission recommendations
  6. Government response to SCoA recommendations
  7. Conclusion

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SIGNIFICANT CHANGES IN THE 2014 DIVISION OF REVENUE BILL

CHANGES IN THE 2014 DIVISION OF REVENUE BILL

- Increased accountability of transferring officers
- Deadlines for repayment of un-approved roll-overs
- Incentives and support for integrated cities
- Incentives for planning and spending provincial infrastructure conditional grants
- Increasing indirect conditional grants

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NATIONAL FISCAL FRAMEWORK

MTEF DIVISION OF REVENUE

- 2014 MTEF will be characterised by moderate growth – real annual average growth of 1.5% projected
- The 2014 division of revenue bill tabled a non interest expenditure of R1.5 billion in 2014 increasing to R1.67 trillion in 2016

R' billion	2014 Budget	2013 MTBPS			Real Annual Average Growth Rate (2014/15-2016/17)
Division of Revenue	**2013/14 Revised**	**2014/15**	**2015/16**	**2016/17**	
National Allocations	449.3	489.4	522.3	553.0	0.7%
Provincial Allocation	414.9	444.4	477.6	508.3	1.3%
Equitable Share	338.9	362.5	388.0	412.0	1.0%
Conditional Grants	76.0	82.0	89.7	96.2	2.7%
Local Allocations	83.7	90.8	100.0	105.2	2.0%
TOTAL	**1 362.8**	**1 469.1**	**1 577.6**	**1 674.7**	**1.5%**

DIVISION OF REVENUE

- The 2014 budget maintains the momentum on fiscal restraint from the 2013 MTBPS
  - Of the R1.02-trillion non-interest allocations tabled for 2014 financial year national receives 47.8%, provinces 43.3% and local government receives 8.9%
  - Excluding shifting of savings from departments an additional amount of R7.2 billion is added in 2014 to fund new priorities
  - Overall Provincial allocations are revised ↑ by R29.5-billion , R23.5 billion to the Provincial Equitable Share (PES) and R6-billion to conditional grants
  - Local government receives an additional R4.7-billion to its equitable share and R1.9-billion to conditional grants

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DIVISION OF REVENUE [CONT.]

- As per the Annexure W1.1 a total of R28.12 billion is added to the MTEF for new priorities
- The major additions in the budget of R7.1 billion in 2014, R9.2 billion in 2015/15 and R11.8 billion in 2016/17 are earmarked for inflation-related salary adjustments
- Considerable portion of the budget allocated to regional bulk infrastructure to accelerate delivery of bulk water and sanitation, rehabilitation of infrastructure destroyed by natural disasters and other priorities in provinces such introduction of the new vaccine for cervical cancer

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PROVINCIAL GOVERNMENT FISCAL FRAMEWORK

PROVINCIAL FISCAL FRAMEWORK

- The 2014/15 provincial fiscal framework [inclusive of conditional grants] is revised ↓ by R200 million over the 2014 MTEF in comparison to 2013 MTBPS
- The Bill proposes an ↑ to the PES from R338.9 billion in 2013/14 to R362.5 billion in 2014/15 to fund higher wage costs
- Conditional grants are projected to grow by 2% per annum in real terms mainly to fund flood damage caused in the first half of 2013 and a new 2-year OSD grant for education therapists

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PROVINCIAL FISCAL FRAMEWORK [CONT.]

- PES formula updated in 2013 with 2011 Census data
- Phasing–in of changes in PES shares is supported as it brings stability to the system
- Eastern Cape expected to be worse off with 0.5% ↓ in PES share over 2014 MTEF
  - The education component of the PES formula is updated with new enrolment data. Gauteng, North West and Western Cape provinces ↑ their education share due to higher enrolment numbers
  - The risk-adjusted sub-component for health is also adjusted with updated data, with KZN and Western Cape increasing their share by 0.3%

Province	Equitable Share Weights (%)		
	2013/14	2016/17	Difference
Eastern Cape	14.5	14	-0.5
Free State	5.8	5.6	-0.2
Gauteng	18.8	19.5	0.7
Kwazulu-Natal	21.5	21.3	-0.2
Limpopo	12	11.8	-0.2
Mpumalanga	8.1	8.2	0.1
Northern Cape	2.7	2.7	0
North West	6.8	6.9	0.1
Western Cape	9.7	10	0.3

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Provincial Conditional Grant Issues

- The Commission notes the ↓ in the agriculture conditional grants, largely due to the under-performance of the grants
  - Main reasons for the under-performance are poor planning, procurement challenges, late submission of business plans and skills deficit in some provincial agriculture departments
- The Commission supports efforts to improve efficiencies in the sector through leveraging private sector funding, better absorption of available funds, improve co-ordination with other sector departments and removing existing duplication

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Provincial Conditional Grants Issues [cont.]

- A new conditional grant to fast track bucket eradication and housing in mining towns has been introduced
  - Funded through reductions in HSDG and USDG
- While the Commission welcomes new grant
  - Old and still relevant priorities must not be replaced with new ones
  - Reduction in HSDG likely to accelerate declining housing unit outputs
  - Need to ensure that capacity exists to ensure that better work will be done with appropriate grant frameworks including exit strategies and timeframes
- Interventions in mining must respond to individual household circumstances

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Local Government Fiscal Framework

LG Fiscal Framework and Conditional Grants

- Local government equitable share (LES) allocation amounts to R147.6 billion over the 2014 MTEF
  - The Commission welcomes improvement in the distribution of LES funds to municipalities through the new formula and continues to engage with government as a member of the technical task team that oversees and refines the formula
- Conditional grants to the LG sphere ↑ from R34.3 billion in 2013/14 to R36.1 billion in 2014/15
- Given significant service delivery responsibility placed on LG sphere, the FFC supports improvements in LES and LG conditional grants allocations
  - Revised LES = welcome departure towards revenue equity amongst municipalities

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LG Fiscal Framework and Conditional Grants [cont.]

- Equally important objectives = building financial and technical capacity, ensuring certainty and accountability and effective service delivery
  - Coherence and synergy between attempts at improving capacity is central and requires attention when one considers the various conditional grants and interventions underway
  - In terms of stability and certainty, adherence to the concept of the MTEF as a tool which enables organs of state to better plan their operations
    - Whilst policy reprioritisations are natural/expected in a government that is sensitive to the needs of its people, any shifting of focus should aim to be as smooth as possible with little disruptions to areas of existing good performance
  - In terms of accountability the Commission welcomes the strong focus on eliminating corruption, a process that has already been actively pursued in municipalities like Buffalo City, eThekwini and others

LG Fiscal Framework and Conditional Grants [cont.]

- The review of LG revenue instruments is a welcome development
  - Commission is of the view that the overall ability of reviews to be effective in solving fundamental fiscal issues holistically given persistent challenges will be constrained by the uncertainty over powers and functions of LG
    - Includes existence of unfunded mandates faced by LG and uncertainties around powers and functions of district municipalities relative to local municipalities.
    - Commission is concerned that little progress has been made on government's review of the LG functional and fiscal framework that was proposed in 2010

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LG Fiscal Framework and Conditional Grants [cont.]

- Rural Households Infrastructure Grant (RHIG) will be divided into a direct grant and an indirect grant for municipalities lacking capacity to implement sanitation
  - Commission advises that allocations in terms of direct component of RHIG be based on an assessment of the capacity required within the recipient municipalities to successfully implement this grant
- Capacity constraints are a concern that continues to hamper the ability of LG to fulfil its service delivery mandate. The Commission has previously raised the general failure of capacity building grants and capacity building programmes in improving municipal performance
  - Government should consider a review of the capacity building grants and programmes in terms of its design, implementation and outcomes. Such a review is important given the numerous capacity-related interventions at the local level including the establishment of the Municipal Infrastructure Support Agency (MISA)

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LG FISCAL FRAMEWORK AND CONDITIONAL GRANTS [CONT.]

- Human Settlements Capacity Grant: a new conditional grant established in 2014
  - R900 million allocated in respect of this grant over 2014 MTEF period
  - Commission emphasises the need for coordination and synergies between this intervention and various other capacity-related grants and interventions to avoid unnecessary overlap and duplication.
  - Commission welcomes the review of LG infrastructure grants currently being undertaken and reiterates full commitment to working with other stakeholders in the process
    - Broader issues of governance and capacity also be considered in the review

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Government Response to Commission Recommendations

- Government has responded to 8 of the 13 chapters in the Commission Submission
- Responses classified into those that are directly or indirectly related to DoR:
  - 3 chapters directly related
  - 5 chapters indirectly related
- The Commission advises Parliament to consider the recommendations that have not been responded to due the requirements of the IGFR Act
  - Chapter 2, 4, 8,9 and 12

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Comments On Responses to FFC Recommendations

- Parliament to exercise oversight on accepted recommendations and where response indicates there are existing interventions to question
  - Effectiveness of the function budgeting and groups
  - FET turnaround strategy
  - Reigning the wage bill
- Section 214 (1) must be adhered to when new conditional are introduced – including FFC Act requirements

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COMMENTS ON RESPONSES TO SCOA RECOMMENDATIONS

- Priorities in Provincial and Municipal budgets
  - Agrees and supports answer since it is dictated by the structure of the constitution
  - M & E system can however be improved
- Avoiding unnecessary rollovers in Health grant
  - Views the answer as incomplete
  - Need to ensure that there is capacity to spend additional funds received and address possible equity consequences.
- Addressing sanitation backlogs
  - Agrees that this is a priority but…
  - Grant framework should tighten the conditions to ensure that there is accountability in ensuring that the objectives are met within a predetermined timeframe and exist strategy is in place

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Comments On Responses to SCoA Recommendations [cont.]

- Monitoring FBS
  - Municipalities M&E systems and DCOG's M & E for the sphere as a whole needs to improve
- Grant Design
  - Commission agrees with the Committee's recommendations
  - Sector departments don't commit resources to designing and monitoring grants and their performance
- Support for Municipalities on Maintenance
  - 8% of OPEX for maintenance is a high benchmark
  - Need asset lifecycle based planned (and not reactive driven maintenance)
  - FFC recommendations on asset management for municipalities e.g. GIAMA – like law for municipalities should be considered
- Provincial Expenditure
  - It is a concern that some provincial treasuries remain weak. The latest AG PFMA report shows that many provincial treasuries do not provide adequate combined assurance

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CONCLUSION

- Commission welcomes overall thrust of 2014/15 DoR
  - Promoting future growth, budget moderation and sustaining core spending
  - The focus on the NDP must be maintained and further translated into departmental budgets
- Commission welcomes idea of setting expenditure ceilings as proposed in the MTBPS
  - Ceilings must be set through an evidence based process
  - Adhere to and be a part of relevant legislation such as PFMA

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CONCLUSION [CONT.]

- New requirements for institutionalising local integrated planning supported
  - Quality of the BEPPs and the underlying planning skills in municipalities become crucial in driving change in urban settlement patterns
- Concerns over growing trend of indirect grants
  - Need for systematic interventions to address poor performance
  - Insist that indirect grants be coupled with clear phase-out strategies and synchronized capacity building of undercapitated provinces and municipalities

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THANK YOU.

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