FINANCIAL
AND FISCAL
COMMISSION

Financial and Fiscal Commission: Submission on the 2011 Division of Revenue Amendment Bill

For an Equitable Sharing of National Revenue

09 November 2011

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List of Acronyms

AIDS	Acquired Immune Deficiency Syndrome
CASP	Comprehensive Agriculture Support Programme
GDP	Gross Domestic Product
FFC	Financial and Fiscal Commission
ICS	Improvement in Conditions of Service
IGP	Infrastructure Grant to Provinces
LES	Local Government Equitable Share
MBAPRMA	Money Bills Amendment Procedure and Related Matters Act
MSIG	Municipal Systems Improvement Grant
MTEF	Medium Term Expenditure Framework
Nedlac	National Economic Development and Labour Council
NGO	Non Governmental Organisation
NGP	New Growth Path
NHI	National Health Insurance
OSD	Occupation Specific Dispensation
PES	Provincial Equitable Share
PHC	Primary Health Care

1. Background

1.1. This submission is made in terms of Part 1 (3) {1} of the Financial and Fiscal Commission (FFC) Act (2003) as amended, which provides for the FFC to act as a consultative body for and to make recommendations to organs of state in the national, provincial and local spheres of government on financial and fiscal matters. The Submission is also made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009), which requires Committees of Parliament to consider the FFC's recommendations when dealing with money bills and related matters.

1.2. In view of the above legislative mandate and government outlined priority areas, the Appropriations Committee requested the Commission to comment on the 2011 Division of Revenue Amendment Bill that was tabled by the Minister of Finance on 25 October 2011.

1.3. This Submission, over and above making general observations on the highlights of the Division of Revenue Amendment Bill also addresses in more specific terms the following areas: *the proposed adjustments to unconditional and conditional grant allocations to provincial and local governments; and a review of re-allocation and roll-overs of conditional grants* in line with the request of the Committee.

2. Objects of the Division of Revenue Amendment Bill

2.1. The Bill is introduced in compliance with the requirements of the Constitution and Money Bills Amendment Procedure and Related Matters Act (Act No. 9 of 2009). Section 12 (4) of the Money Bills Amendment Procedure and Related Matters Act states "that the Minister of Finance must table a Division of Revenue Amendment Bill with the revised fiscal framework, if the adjustments budget effects changes to the Division of Revenue Act (Act No. 6 of 2011) for the relevant year". As the adjustments budget for 2011 effects changes to the Division of Revenue Act, it is necessary for the Bill to be tabled with the adjustment budget.

2.2. The Bill addresses the following matters:

a. additional unconditional and conditional allocations to the provinces and municipalities

b. allocation of unallocated conditional allocations to provinces and municipalities

c. re-allocation of conditional allocations to provinces and municipalities not transferred by national departments during the 2010/11 financial year.

d. increase to a conditional allocation to a province or municipality through a virement under section 43 of the Public Finance Management Act (Act No. 1 of

1999) or section 28(2)(d) of the Local Government: Municipal Finance Management Act (Act No. 56 of 2003), as the case may be, and

e. re-allocation of conditional allocations that were not correctly reflected in the Schedules to the Division of Revenue Act

3. Principles governing adjustments budgets

3.1. Government may revise its annual budget by means of an adjustments budget in cases of unforeseen and unavoidable expenditure. However, Parliament must appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for.

3.2. Parliament may in such an adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the National Treasury after consultation with the FFC, the South Africa Local Government Association, national and provincial departments. This is in compliance with the requirements of the Money Bills Amendment Procedure and Related Matters Act (Act No. 9 of 2009).

3.3. Parliament may authorise the utilisation of projected savings on any vote towards spending under another vote.

3.4. Parliament may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved.

3.5. Parliament can prescribe limitations on the timing and frequency of tabling adjustments budget. It can also demand an explanation of how the adjustments affect the approved annual budget.

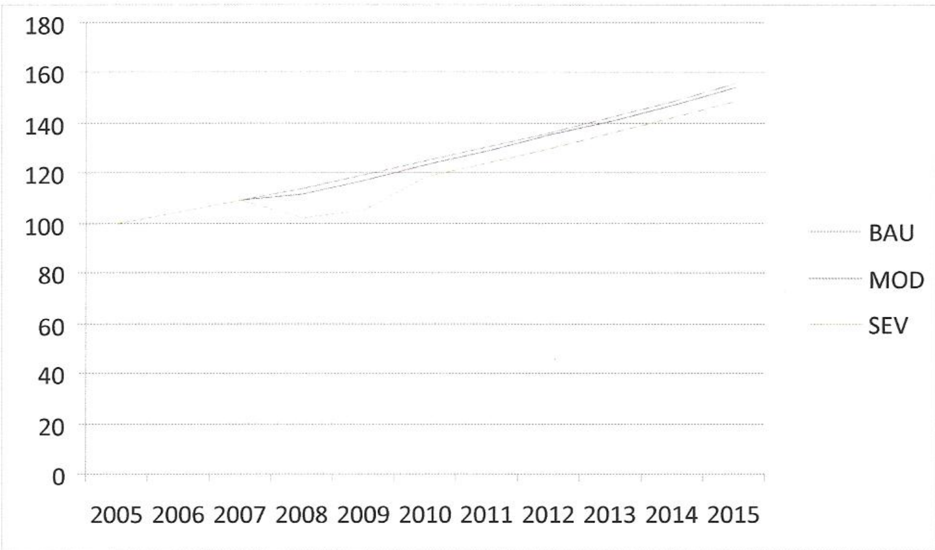
4. Adjustment Budgets and Medium Term Spending Priorities

4.1. A hallmark of the new government administration has been a distinct thrust towards outcomes-based policy formulation and this would be expected to be the main driver of change in government's economic policy. The key priority areas that government outlined for the next 5 years are: *creation of decent work and sustainable livelihoods; education; health; rural development, food security and land reform; and the fight against crime and corruption.*

4.2. The Commission's economic outlook reported in the 2010 Annual Submission for the Division of Revenue noted that Gross Domestic Product (GDP) had fallen in 2008 and 2009 and then projected an increase from 2010 onwards and that the increase would not return to its business as usual (BAU) value even by 2015.

4.3. What is relevant to note here is that negative impacts of the global economic crisis on investment remain in the long run. Indeed, under both scenarios about the severity of the crisis projected by the Commission one still observes lower investment in 2015 than under the BAU. The world economic crisis produced a huge drop in GDP (Figure 1). For both scenarios, GDP falls in 2008 and 2009 and then increases again, but it does not return to its BAU value even by 2015. In other words, without positive shocks or deliberate and successful interventions that stimulate the economy and counteract the negative impact of the world economic crisis, GDP will not recover to what it would have been in the absence of the crisis, that is, the BAU scenario (see Figure 1). As was expected, the 2011 MTBPS announced a downward revision of GDP growth in the current year from about 4% to 3.1% of GDP. The medium-term growth forecast outlined in the 2011 budget was considered too ambitious by the Government given the uncertain economic climate and crises in the global economy.

Figure 1: Evolution of Real GDP in BAU, Moderate and Severe Scenarios



Source: Financial and Fiscal Commission

4.4. In line with Commission's previous recommendation, successful fiscal consolidation in South Africa necessitates a tighter fiscal stance, particularly when it comes to expenditure.

4.5. In the Submission for the 2012 Division of Revenue, the Commission emphasise the need for continued fiscal consolidation and thus supports the current Government position in this regard as indicated in the 2011 MTBPS. The 2010/2011 Budget – which provides for a phased reduction in the budget deficit of the national government to 4.8 percent of gross domestic product (GDP) in fiscal year 2013 based on a combination of revenue growth and strict expenditure discipline – represented the first step of required consolidation effort.

4.6. Comparing the revised estimates for 2011/12 with what was projected in this year's budget, the following categories were revised upwards: Health, Recreation and Culture, Education, and Social protection. On the other hand, the following categories were revised downwards: General public services, Defence, Public order and safety, Fuel and energy, and Housing and community amenities.

Table 1: Revisions of the Selected Expenditure Components (Functional Classification)

Category	2011/12 figure (Budget Review)	Revised 2011/12 figure (MTBPS)	Percentage change
General public services	55.4	53.0	-4.3%
Defence	38.4	38.3	-0.3%
Public order and safety	90.9	90.6	-0.3%
Fuel and energy	7.9	7.7	-2.5%
Housing and community amenities	121.9	121.5	-0.3%
Health	112.6	113.2	0.5%
Recreation and culture	6.4	9.6	50.0%
Education	172.7	190.8	10.5%
Social protection	146.9	147.8	0.6%

Source: Budget Review (2011), MTBPS (2011), Commission's calculations

4.7. Table 2 below sets out the division of revenue among the three spheres of government. After a net adjustment of R2.9 billion in 2011/12, the total expenditure envelope grows from a revised R811.1 billion in 2011/12 to R1 trillion by 2014/15. Using the base year 2011 consumer price inflation (CPI) of 5%, this represents an average real growth in expenditure of about 2.3%. Compared to the 2010 MTBPS growth rate of 2%, the provincial allocations are growing at a slower rate. As a result the share in allocations for national and local government is projected to grow, while that for provinces declines, though marginally from 44.9% to 44.7% over the MTEF.

4.8. The share of national allocations remains stable over the 2012 MTEF at average 46.8%, increasing slightly from the initial 46.7% in 2012/2013 to 46.8% in spite of the economic downturn. In addition, the local government fiscal framework remains buoyant, growing at a real rate of 3.4% in 2012/13 and 3.6% in 2014/15. Provincial baselines grow by only 1.1% while local government baselines grow by a healthy 4% in real terms over the medium term. The Commission agrees with government that the latter is important to assist municipalities in the provision of free basic services to the poor and cover administrative costs where cost increases are a result of exogenous factors such as increased administrative prices and while the emphasis continues to be placed on elimination of waste, corruptions and inefficiency.

Table 2: Division of Revenue 2011/12-2014/15

	2011/12	2012/13	2013/14	2014/15	2012	Average annual growth
R billion	Revised	Medium-term estimates			MTEF Totals	2010/11 – 2013/14
National	377.8	410.3	445	**474.7**	1329.7	7.9%
Provincial	363.2	384.5	411	**437.8**	1233.3	6.4%
Equitable share	291.7	308.5	328	**348.8**	985.7	6.1%
Conditional grants	71.5	76	83	**89**	247.6	7.6%
Local	70.1	77	84	**90.8**	251.6	9.0%
Total	**811.1**	**871.8**	**940**	**1003.3**	**2814.6**	**7.3%**
Percentage share						
National	48.2%	46.7%	46.8%	**46.7%**	46.8%	
Provincial	43.9%	44.9%	44.6%	**44.6%**	44.7%	
Local	7.9%	8.4%	8.6%	**8.6%**	8.6%	
Changes to baseline						
National	-2.3	1.9	6	**15.1**	22.8	
Provincial	5.2	4.1	7	**9.4**	20.2	
Equitable share	3.2	2.8	5	**5.8**	13.35	
Conditional grants	2	1.3	2	**3.6**	6.9	
Local	0	0	2	**3.5**	5	
Total	**2.9**	**6.0**	**14.0**	**28.0**	**48.0**	

Source: National Treasury, 2011

4.9. The Commission notes the downward revision of housing allocations. The downward revision does seem appropriate pending resolution of policy issues and the refocusing of expenditures on real need (e.g., upgrading of informal settlements)

4.10. **Infrastructure and Job Creation**: Much of the emphasising has to be about the need to shift priorities in government spending away from consumption towards infrastructure investment as a critical vehicle through which to generate more jobs. There are also other initiatives beyond infrastructure including support to different sectors and the jobs fund including the youth wage subsidy that is currently being discussed within government and at the National Economic Development and Labour Council (Nedlac). As proposed in FFC's 2011 Annual Submission, government should actively and specifically continue pursuing the implementation of significant capital investment in public infrastructure that has a positive impact on total factor productivity and employment in the context of New Growth Path (NGP). However, government must improve its capacity to deliver quality infrastructure on time. This will stimulate economic growth and job creation.

4.11. **Health Expenditure**: In the medium term expenditure framework (MTEF), Government has by proposing earlier treatment for AIDS through widening of cd4 to the 350 threshold. In the area of Primary Health Care (PHC), government is proposing sustaining rising PHC visits through increased allocations. The continued emphasis by government on the need to achieve greater efficiencies and cost-savings for reprioritisation is also in line with FFC recommendations in the 2011 Annual Submission. With regard to National Health Insurance (NHI), government describes a largely coherent framework of reforms, designed to help deliver on the objective of a health service aimed at providing universal coverage while ensuring that everyone has access to quality, needed health services in the recently released NHI Green Paper. Government promises that steps will be taken over the MTEF to improve public health administration, accelerate the hospital revitalisation programme and pilot district-based primary health services as part of the preparation for NHI. There is a need for government to come up with an interim financing mechanism for these activities that is credible. There are two issues for discussion here. The first pertains to interim financing arrangements of NHI, in particular the proposed pilots. One option is to simply transfer these allocations (which are already far below the stated gap) via the Provincial Equitable Share (PES) formula. Another option is to set up a new conditional grant as an interim financing strategy as mentioned in the Green Paper. The Commission's view is that the proposal to create a conditional grant is worth pursuing as funding mechanism in the interim but in the context of reforms to resolve more structural issues in the sector. The Commission is of the view that the interim funding arrangements should go with some conditions: a) transformation of funding strategies in provinces to allow for integrated services across all the sectors mentioned, with a strong focus on prevention; and b) a viable monitoring system be established to track quality of services provided by government and the non governmental organisations (NGOs) involved.

5. Adjustments to Provincial Government Allocations

5.1. According to the Division of Revenue Bill the **Provincial Equitable Share (PES)** is adjusted upwards by R3.242 billion to cover higher than budget for wage agreements. This represents a 1.3 % shortfall in the initial allocation. The allocation qualified as unavoidable or unforeseen because provinces' arguments are that; they have not been fully funded and has no scope to fund these amounts from their budgets, even after implementing cost curtailment initiatives. The risk if this shortfall is not funded is that provinces would be forced to hold back on expenditure needed for other areas of service delivery.

5.2. The Commission, in its annual submission for 2012/13 Division of Revenue, recommended that in dealing with the adjustments for increased cost of salaries (ICS) as well as the expansion and implementation for occupational specific dispensation (OSD), government should be mindful of the rising public sector wage bill relative to other priorities. There should be a rethink on the planning, timing and funding of personnel costs, which are centrally determined but funded by provinces through the equitable share. Multi-year wage agreements in line with the medium expenditure framework should be encouraged in the intergovernmental fiscal relations system.

5.3. At the level of an equitable outcome, there is a need to ensure that provinces spend efficiently and that allocated budgets are not overspent on personnel or under-spent on capital and maintenance budgets.

5.4. In its submission on the 2010 Medium Term Budget Policy Statement, the Commission raised its concern over rising personnel adjustments and indicated that there is a risk of rewarding some provinces for making wrong choices. These choices include making unauthorised personnel appointments and provinces deliberately creating pressures on own budgets while other provinces continue to do the right things and get penalised.

5.5. Having analysed the first quarter spending from section 32 reports, indications were that provinces were already overspending by 3.7 billion in July 2011. At such a pace it is the Commissions view that the R3.2 billion adjustment will not be adequate to deal with the challenge of personnel cost in its entirety. The Commission, in its annual submission for 2012/13 Division of Revenue, further recommended that in dealing with the adjustments for increased cost of salaries (ICS) as well as the expansion and implementation for OSD, government should be mindful of the rising public sector wage bill relative to other priorities. There should be a rethink on the planning, timing and funding of personnel costs, which are centrally determined but funded by provinces through the equitable share. Multi-year wage agreements in line with the medium expenditure framework should be encouraged in the intergovernmental fiscal relations system.

5.6. The **FET Colleges Grant** is adjusted by R49.3 million for higher than budget for wage agreements. These funds are allocated for the same reason as the adjustments to the Provincial Equitable Share and are shared between provinces in proportion their shares of personnel expenditure at FET colleges.

5.7. To allow provinces to deal with flood damages the following amounts are added to various infrastructure related grants in provinces agriculture R149.5 million, housing R180 million, roads R240 million, education R180 million and health R2.6 million. This represents a total adjustment of R753.1 million. This adjustment should be judged against the effect of other forms of disasters like the recent tornados that affected Gauteng or veld fires that ordinarily affect the farming communities. In this regard the funding for disaster is not comprehensive enough in terms of coverage of the types of disasters. Similarly, the quantum might not be adequate given the magnitude of recurring climate change induced disasters.

5.8. Annually the Division of Revenue Act requires that funds be withheld and or stopped where there is non-compliance with the requirements of Act. **Error! Reference source not found.**3 shows that there is a total of R1.23 billion approved conditional grants for roll over into the current financial year. From this roll-over, 89 % is for the Infrastructure Grant to Provinces (IGP), which is said to be re-established through this adjustment bill. This is a substantial amount to be rolled over for any given grant. Infrastructure delivery has been a major challenge in most provinces over many years and it does not seem to get any better. There are numerous reasons for this situation such as; capacity constraints, poor project management, responsibility and accountability issues, corruption, limited number of suitably qualified contractors, and departmental units operating in silos.

Table 3: Approved national roll overs to 2011/12 financial year

R 000s	EC	FS	GP	KZN	LP	MP	NC	NW	WC	Total
Agriculture, forestry and fisheries										
Ilima/Letsema	5 000									
CASP								10 076		
Sub-total	**5 000**	-	-	-	-	-	-	**10 076**	-	**15 076**
Arts & Culture										
Community Library Services	14 500			3 570	8 444					
Sub-total	**14 500**	-	-	**3 570**	**8 444**	-	-	-	-	**26 514**
Basic Education										
Technical Secondary Schools	2 688				4 444	3 386				
Sub-total	**2 688**	-	-	-	**4 444**	**3 386**	-	-	-	**10 518**
Health										
Hospital Revitalisation	29 000		55 500							
Sub-total	**29 000**	-	**55 500**	-	-	-	-	-	-	**84 500**
National Treasury										
IGP										
Agriculture						14 900				
Education		65 666				113 703	71 281	194 614		
Health		4 237			87 172		43 723			
Roads & Transport		47 216			174 342	173 834	98 995			
Sub-total		**117 119**			**261 514**	**302 437**	**213 999**	**194 614**		**1 089 683**
Total	**70 788**	**117 119**	**72 600**	**3 570**	**274 402**	**305 823**	**213 999**	**204 690**		**1 226 291**

Source: 2011 Divison of Revenue Amendment Bill

5.9. The question that needs to be raised is whether or not capacity-building initiatives (such as Infrastructure and Delivery Improvement Programme (IDIP), as well as government's plans to increase the number of technical staff and data capturers to work with provinces and municipalities) are sufficient to improve delivery given the increases in funding for infrastructure over the medium term, or is sub national government in a sense set to fail on a grander scale? Adequate capacity is a critical concern for municipalities and provincial governments. The availability of appropriately skilled human capital, capable of ensuring solid financial management practices and strategic planning, is an asset for any government entity. Lack of capacity in this regard has a definite impact on the performance of a municipality. Constant growth in capacity building grants should, as noted in the Commission's Submission for the Division of Revenue for 2010/11, take into consideration current weaknesses in the framework underpinning capacity building initiatives. The concern is that interventions are fragmented, uncoordinated and largely unresponsive to the nature and underlying causes of the challenges experienced. Thus allocating additional funding within this context would not be fiscally prudent and would certainly not adequately address current capacity challenges. In its response to the 2010 MTBPS, the Commission further called for a greater focus on institutionalisation of project management, external auditing of budget expenditure, greater involvement of the private sector through PPPs (public private partnerships), establishment of budgeting norms and standards as well as institutionalising life-cycle project management as interventions towards dealing with capacity issues. These suggestions remain relevant. Government should be applauded for recently putting in place initiatives that require departments to submit projects upfront and also for National Treasury to visit entities in the compilation of the Estimated National Expenditures.

5.10. **Other grants that contribute the remaining 11% of the rollover include**

1. The Comprehensive Agriculture Support Programme (CASP) adjusted by R10 million;
2. The Ilima/Letsema project grant adjusted by R5 million
3. The Community Library Services grant is adjusted by R26.5 million: This adjustment is as a result of roll-overs for Eastern Cape (R14.5 million), KwaZulu Natal (R3.5 million) and Limpopo (R8.4 million). The Commission would like to alert the Committee that while funds remain unspent and are rolled-over for this grant, community library services are commonly cited by municipalities as unfunded mandates. In its annual submission for 2012/13 Division of Revenue, the Commission undertook a study on the impact of unfunded mandates in South African Intergovernmental Relations. What emerged from the study was that as a result of unfunded mandates, municipalities experience the following challenges related to the provision of community library services (1) operational and capital budgets allocated internally being not sufficient for maintaining/improving/expanding services, resources and facilities, (2) the standard of library services and facilities is declining slowly, instead of growing dynamically to satisfy the ever-changing and increasing needs of communities (3) the Library Grant is inadequate to fund the expenses of the library service. Based on these, it is of concern that funds still remain unspent for this function.
4. The Technical Secondary Schools Recapitalisation adjusted by R10.5 million; and
5. The Hospital Revitalisation Grant adjusted by R84.5 million.

5.11. **Agriculture Conditional Grants:** From an intergovernmental relations point of view, government programmes for agriculture and rural development are not well co-ordinated to realise the envisaged policy objectives of vibrant rural livelihoods. At the national level, the responsibility for agriculture and rural development functions is now shared by the Department of Rural Development and Land Reform which is responsible for the overall coordination of rural development, land and agrarian reforms. Conditional grants allocated in the sector are relatively small and administered by different national department. For instance, the Department of Agriculture, Forestry and Fisheries administers the Comprehensive Agriculture Support Programme Grant, Land Care and Ilima/Letsema Grants and the Department of Human Settlements administers the Rural Household Infrastructure Grant. This grant was introduced in the 2011 medium term expenditure framework and addresses the burning issue of water supply and sanitation in rural areas. These institutional arrangements were also replicated in some provinces as well. The spread of rural development functions across provincial department makes planning, budgeting and delivery of difficult to implement. The budget analysis in terms of allocative efficiency is not easy because there are no standardised budget programmes and economic classification for rural development as yet.

6. Adjustments to Local Government Allocations

6.1. In the local government sphere, the following roll-overs are proposed for adjustments:

Table 4: Revised Local Government Conditional Grants

Conditional Grants: R'million	2011/12 (Adjustment Budget)
Water Services Operating Subsidy Grant	3 150 000
Rural Households Infrastructure Grant	26 000 000
Regional Bulk Infrastructure Grant	10 600 000
Regional Bulk Infrastructure Grant	-28 600 000
Municipal Systems Improvement Grant	790 000
Financial Management Grant savings	11 000 000
Financial Management Grant savings	39 000 000

Source: 2011 Division of Revenue Amendment Bill

a. The Water Services Operating Subsidy Grant adjustment is given to Lephalale Municipality

b. The Rural Households Infrastructure Grant is adjusted to fast-track the rollout of on-site water and sanitation solutions for rural households where piped services are not feasible.

c. The Regional Bulk Infrastructure Grant is adjusted by for building of bulk water supply systems but adjusted downwards by R28.6 million for funds earmarked for feasibility studies of projects.

d. An amount of R21.6 million will be shifted from the direct (schedule 6) Water Services Operating Subsidy Grant to the indirect (schedule 7) Water Services

Operating Subsidy Grant. This shift is made to fund above inflation salary increases for the stuff employed through the indirect grant.

e. The Municipal Systems Improvement Grant (MSIG) is adjusted through the shifting of funds the budget of the Department of Cooperative Governance into the MSIG for the NW397 municipality (formed out of the merger of Kagisano and Molopo local municipalities in the North West).

6.2. Distribution of Unallocated Funds and Savings: R11 million has been declared as savings on the Financial Management Grant. These funds will be returned to the National Revenue Fund. The remainder of the funds (R39 million) will be allocated to municipalities for a new engineering internship programme.

6.3. An amount of R266 million is provided for as a once-off gratuity for non-returning municipal councillors' posts the 2011 municipal elections. This amount will be reflected on the vote of the National Department of Cooperative Governance.

6.4. The Commission supports greater funding being afforded to municipalities to support their institutional and administrative costs. Such an initiative is in line with the Commission's recommendation for greater funding being targeted to poor municipalities via the Institutional Component of the LES formula. These poorer municipalities are resource constrained and thus find it difficult to fund their administrative expenses and attract the appropriate skills from their revenue base. Such an initiative will assist in ensuring that resources earmarked for service delivery is not compromised to fund institutional and administrative requirements.

6.5. The Commission would like to highlight two aspects with respect to local government conditional grants, namely

a. Its support for the stance taken by National Treasury of tightening the systems and processes around unspent conditional grant funding and returns to the National Revenue Fund (National Treasury, 2011). The risk of having the equitable share allocation offset against unspent conditional grant funding, will surely have an effect in terms of motivating municipalities to use conditional grants appropriately and for the purpose they were designed for.

b. Given the number of existing conditional grants at the local level, the Commission would like to reiterate as per its 2011/12 recommendations, the need for government to ensure independent evaluations of grant performance at entry, midterm and end of the grant life cycle.

c. National government must provide capacity development and assistance to struggling provinces and municipalities in the management of conditional grants and delivery of services. This is because of some of the rolled-over grants are due to underexpenditure as a result of weak capacity and poor performance.

d. Unless poor municipal planning and spending on capital is addressed, Government's plans to invest in economic and social infrastructure as a means of promoting economic growth will remain unattainable.

e. In addition, the need for stronger adherence to basic financial management principles on the part of municipalities, and stricter enforcement on the part of spheres tasked with oversight responsibilities, is essential if this aspect of municipal performance is to be improved

6.6. The Commission highlights the importance of municipalities being appropriately resourced to fulfil their constitutional mandates. In this regard, the Commission notes the increasing expenditure pressures placed on the sphere in terms of extending and sustaining quality services to households, investing in new and existing infrastructure and supporting local economic and community development.

6.7. The success and appropriate design of a funding framework for local government can only be achieved in an environment where the expenditure responsibilities of the sphere are clear and well defined. In this sense, the Commission reiterates its position on the stalled policy implications of the review of the powers and functions of local government as envisaged in the review of the Local Government White Paper process. This is particularly relevant for the funding of district municipalities. The Commission is of the view that this is an important issue that needs to be addressed urgently.

7. General Remarks

7.1. The Commission welcomes shifts in the composition of public expenditure towards investment and economic development and calls upon Government to actively continue investing significantly in public infrastructure, which has a positive impact on productivity and employment.

7.2. The Commission in its submission for 2011/12 Division of Revenue recommended that when introducing and terminating conditional, national departments must introduce a mandatory, systematic process for designing and planning individual conditional grants that covers incentive effects, administrative accountability arrangements and stipulates regular review periods and exit strategies of the grant.

7.3. Government should ensure that there is an independent evaluation of the grant performance at entry, midterm and end of the grant.

7.4. Systems and processes should be put in place to allow poorer performing municipalities to learn from their better performing counterparts. More efficient municipalities may already have solutions to the problems faced by less efficient municipalities. While the 'best practice' municipalities are efficient compared to the other municipalities in South Africa, they may not be efficient in comparison to municipalities in other countries.

7.5. The Commission appreciates this opportunity to interact with Parliament in relation to the Division of Revenue Amendment Bill and the fiscal framework. The Commission would like to caution against persistent in year reallocations to the DORA allocations. This has the potential for creating scope for patronage. The Commission fully understands and appreciates the frustrations and reasons for this, but questions whether the approach actually takes account of the actual problems (which may be with poor grant design, unclear or unexpected allocations, etc). In short, there is a need to highlight to Parliament that reallocations of this nature can have long term negative ramifications on the predictability and stability of the IGFR system and hence can undermine the system. While they may be acceptable in the short term, there is a need to understand and eliminate them over the longer term to avoid scope for manipulation and patronage.

For and on behalf of the Financial and Fiscal Commission

Mr Bongani Khumalo

Acting Chairperson/CE