SUBMISSION TO THE SELECT COMMITTEE OF APPROPRIATIONS ON THE 2012/13 APPROPRIATIONS BILL

"For an Equitable Sharing of National Revenue."

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List of Acronyms

CMBS	Constitutionally Mandated Basic Services
CMS	Constitutionally Mandated Services
DoR	Division of Revenue
FFC	Financial and Fiscal Commission
IGFR	Intergovernmental Finance Relations
LES	Local Equitable Share
MBPARMA	Money Bills Amendment Procedure and Related Matters Act
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act
SOE	State Owned Enterprise

1. BACKGROUND

1.1 This submission is made in terms of Section 4 (4)(2) of the Money Bills Amendment Procedure and Related Matters Act (MBPARMA) of 2010 which requires Parliamentary Committees to consider any recommendations of the Financial and Fiscal Commission (FFC) (hereafter the Commission) during their processing of the Appropriations Bill[1]. It is also made in terms of the FFC Act of 1997 which requires that the Commission respond to any requests for recommendations by any organ of state on any financial and fiscal matters relevant to its mandate.

1.2 In the following paragraphs, the Commission discusses its interpretation of Constitutionally Mandated Services (CMS) and assesses the extent to which appropriations address these across the three spheres of government.

1.3 The submission consists of five sections. The second section gives a brief description of the relationship between Constitutionally Mandated Services (CMS) and the Appropriations Bill. The third section looks at the extent to which CMS are funded by the Appropriations Bill across the three spheres of government. Section 4 discusses government's policy priorities as reflected in the utilisation of the National Revenue Fund, and the final section is the conclusion.

2. RELATIONSHIP BETWEEN THE APPROPRIATIONS BILL AND CMS

2.1. 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 between the amount to be appropriated and the constitutional mandates of the three spheres.

2.2. There is a need to balance the share of additional funding across spheres in line with identified outcomes and priorities through the Bill. The Bill sets out clearly appropriations for the requirement of the State for the forthcoming financial year, in this case 2012/2013. 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.

[1] The Appropriation Bill is a 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.

2.3. In its response to the 2011 Appropriations Bill, the Commission provided a comprehensive background, definition and interpretation of both CMS and constitutionally mandated basic services (CMBS). In this submission, the Commission indicated how the Constitution and specifically Chapter 2 on the Bill of Rights identifies CMBS as part of the broader CMS for which the State needs to ensure progressive realisation.

2.4. The Commission indicated further that an identification of these services and the spheres responsible for them becomes important if they are to be located within the various votes in the Appropriations Bill. The identification of these services was complicated by the high degree of concurrency and general lack of national norms and standards in a range of services. Within these concurrent functions, there is also lack of a clear delineation of roles and functions across and among spheres of government.

2.5. CMS are clearly defined and assigned to various spheres in the 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.

2.6. 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 just as important and therefore should receive as much attention as basic services to increase the likelihood that the rights of South Africans and the obligations of the State are realised.

3. HOW MUCH OF THE CMS DOES THE APPROPRIATIONS BILL FUND?

3.1 APPROPRIATIONS AND CMS

a) Table 1 and 2 below give analysis of spending items or programmes that receive special preferential funding over and above baselines from additional revenue.

Table 1. Appropriations and funded policies, 2007 to 2011 MTEF: Consistency of priority funding

	R million	2008/09	2009/10	2010/11	2011/12	2012/13	Total 2008-2012
CMBS	Provincial equitable share	5,903	5,585				**11,488**
	Education	495	1,131	4,150	2,807	150	**8,733**
	Health	1,100	404	3,121	918	150	**5,693**
	Social Security and Social development	2,705	2,510	1,785	1,164	-	**8,164**
	Housing and community development	1,004	2,119	100	1,634	741	**5,598**
	Local government Equitable Share	1,114	491	900		-	**2,505**
	Total CMBSs	**12,321**	**12,240**	**10,056**	**6,523**	**1,041**	**42,181**
CMBS Enablers	Job Creation			567	2,301	1,215	**4,083**
	Justice ,crime prevention and policing	400	750	1,180	100	250	**2,680**
	Economic Infrastructure	2,492	37,988	2,872	3,532	2,781	**49,665**
	Industrial development, science & technology		561			-	**561**
	Productive capacity of the economy	3,180				2,050	**5,230**
	Rural development			1,010		-	**1,010**
	Total CMBS Enablers	**6,072**	**39,299**	**5,629**	**5,933**	**6,296**	**63,229**
Non CMBS	Public administration capacity	478	8,159		2,058	110	**10,805**
	International relations and defence	474	766			-	**1,240**
	Compensation of employee adjustments			10,000	11,413	5,688	**27,101**
	Other adjustments	4,652	7,743	2,145	5,185	5,862	**25,587**
	Total Non CMBS	**5,604**	**16,668**	**12,145**	**18,655**	**11,660**	**64,732**
	Grant Total	23,997	68,207	27,831	25,927	18,997	**170,143**

SOURCE: NATIONAL TREASURY, DIVISION OF REVENUE BILL, 2008- 2012.

b) Excluding in-year adjustments and savings from reprioritisation, R170 billion has been added to baselines of the three spheres over the past 5 years to fund new priorities as identified in Table 1. The 2009/10 financial year saw the highest addition of R68.2 billion or 40% of the additions for the period. The 2012/13 appropriations amount to a total of R18.9 billion available for sharing among the three spheres on new priorities. This represents the least amount of adjustment for the past five years. Unfavourable economic conditions as an aftermath of the 2009 recession are mainly responsible for these reduced amounts. Table W1.3 of the Division of Revenue (DOR) Bill shows that expenditure amongst the three spheres rises from R814 billion in 2011/12 to R874 billion in 2012/13. Most of this year's government financing of about R41 billion has been obtained from reprioritisation and savings, ensuring that additional spending increase by about R60 billion among the three spheres.

c) For the period reviewed, spending items that receive the highest attention include economic infrastructure development (R49.7 billion), compensation of employees (R27.1 billion), other adjustments (R25.6 billion) education (R8.7 billion), public administration capacity (R10.8 billion), social security and social development (R8.2 billion). The least prominent and non sustained priorities over the review period are science and technology (R561 million) and rural development (R1 billion). The revised additional appropriated amounts were R18.9 this year compared to R67.8 billion added in 2009/10 (driven in the main by an adjustment for ESKOM).

d) Over the past five years, the government continues to appropriate additional allocations to key CMSs like education, health and social security. This has been significantly supplemented by programmes such as economic infrastructure development and job creation which can be considered to be enablers or catalysts that lead to improved access to CMSs.

Table 2. Shares of priority funding over the past 5 years of Appropriation

	R million	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**5 Year Average**	**Shares**
CMBS Targeted	Provincial equitable share	48%	46%	0%	0%	0%	**19%**	7%
	Education	4%	9%	41%	43%	14%	**22%**	5%
	Health	9%	3%	31%	14%	14%	**14%**	3%
	Social Security and Social development	22%	21%	18%	18%	0%	**16%**	5%
	Housing and community development	8%	17%	1%	25%	71%	**25%**	3%
	Local government Equitable Share	9%	4%	9%	0%	0%	**4%**	1%
	Share of CMBSs	**51%**	**18%**	**36%**	**25%**	**5%**	**24.8%**	
CMBS Enablers	Job Creation	0%	0%	10%	39%	19%	**14%**	2%
	Justice ,crime prevention and policing	7%	2%	21%	2%	4%	**7%**	2%
	Economic Infrastructure	41%	97%	51%	60%	44%	**58%**	29%
	Industrial development, science & technology	0%	1%	0%	0%	0%	**0%**	0%
	Productive capacity of the economy	52%	0%	0%	0%	33%	**17%**	3%
	Rural development	0%	0%	18%	0%	0%	**4%**	1%
	Share of CMBSs Enablers	**25%**	**58%**	**20%**	**23%**	**33%**	**37.2%**	
Non CMBS	Public administration capacity	9%	49%	0%	11%	1%	**14%**	6%
	International relations and defence	8%	5%	0%	0%	0%	**3%**	1%
	Compensation of employee	0%	0%	82%	61%	49%	**38%**	16%

	adjustments							
	Other adjustments	83%	46%	18%	28%	50%	**45%**	15%
	Share of Non CMBSs	**23%**	**24%**	**44%**	**72%**	**61%**	**38.0%**	
	Total	**100%**	**100%**	**100%**	**120%**	**100%**	**100%**	**100%**

SOURCE: NATIONAL TREASURY, DIVISION OF REVENUE BILL, 2008- 2012.

e) Table 2 shows that priorities that retain high prominence over the past 5 years include other adjustments and compensation of employees (38 % share of non-CMBS driven mainly by additions to the item). The share of appropriations to CMBS account for the least percentage at 24.8, while that for CMBS enablers makes up the remaining 37.2%. Within the grouping of CMBS, housing and community development priority and education receive the highest prominence at 25% and 22% each. The provincial and local government equitable shares are still receiving increased prominence although they are not funded from new priority funding. All of their funding in the 2012/13 appropriation is funded from existing baseline savings and reprioritization.

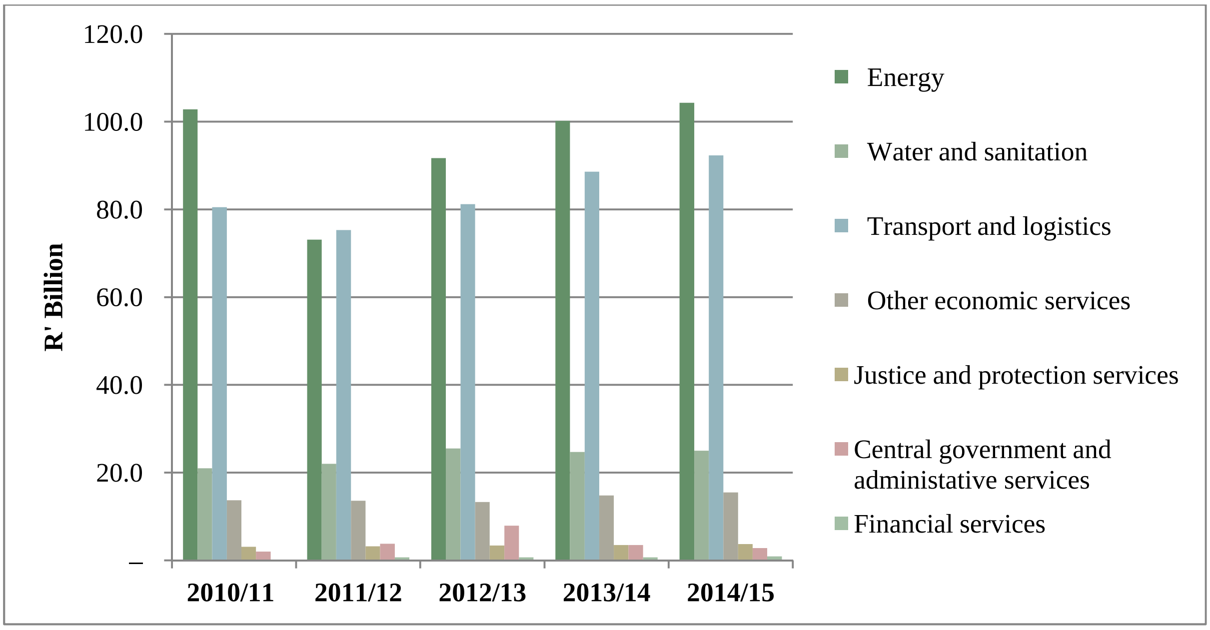
f) Table 2 shows that these two priorities command 58% and 14% respectively of the total allocation to CMBS which is in line with the presidential call for infrastructure development and job creation for 2012. . When looked at in terms of government's total list of priorities, economic infrastructure is allocated the largest share of appropriations, followed by compensation of employees and the item other priorities respectively at 16% and 15% each.

3.2 NATIONAL GOVERNMENT AND EXTENT OF CMS FUNDING

Infrastructure

a) The 2012/13 budget puts central emphasis on infrastructure investment and job creation. An amount of R845 billion has been budgeted and approved for infrastructure investment over the medium term expenditure framework (MTEF). National departments are responsible for a smaller share of public infrastructure investment equivalent to 2% or R6 billion of total annual budgeted resources. When state owned enterprises (SOE) and other extra budgetary institutions are included, the national government's share of public infrastructure investment increases to over 91%, leaving provinces and municipalities with a respective share of only 4% and 5% respectively.

Figure 1. Planned public infrastructure investment expenditure excluding social services, 2010/11-2014/15



SOURCE: ADAPTED FROM NATIONAL TREASURY BUDGET REVIEW, 2012.

b) For the 2012/13 financial year, the total budgeted and approved infrastructure expenditure plans amount to R227 billion reaching R844 billion in 2014/15. As SOEs are the key drivers of infrastructure investment, a large part of the resources (80 percent) will be spent in economic services including energy, transport and logistics, environmental infrastructure and telecommunications (see Figure 1). SOEs leverage the bulk of their resources from capital markets and other financing instruments such as user fees and public private partnerships. It is important for these enterprises to maintain healthy balance sheets in order to attract more private capital at favourable lending rates. This will ease the pressure on the fiscus and increase the amount of resources available for use by provinces, municipalities and other infrastructure of national importance such as justice and protection services as well as higher education. Just over R147 billion rand has been set aside over the MTEF to address social infrastructure.

Justice and Protection

c) Justice and protection services infrastructure continue to remain high on government priority list. For 2012/13, an additional allocation of R300 million has been appropriated to cater for courts infrastructure in order to improve access to justice and enhance court efficiency.

Higher Education / University Infrastructure

d) Responding to South Africa's scarce skills initiative and to improve university infrastructure including student accommodation facilities, an additional allocation of R850 million is appropriated to the Department of Higher Education. The 2012/13 higher education allocation also includes project development funding for the two new universities in Mpumalanga and the Northern Cape to the tune of R10 million respectively.

Job Creation

e) Over and above addressing supply constraints and stimulating economic activity, the secondary objective of infrastructure spending is to create jobs. However, South Africa faces the risk of not generating sufficient jobs from its infrastructure expenditure, especially those carried out by SOEs.
f) The 2012/13 budget makes provision for other community based job creation initiatives such as the expanded public works program, community works program, national rural youth service cooperatives and working on water. Over the MTEF, these job creation programs receive additional allocation of R6.1 billion, of which R1.2 billion is appropriated in 2012/13 (see Table 3). The community works program is expected to create 322 000 jobs which guarantees participants at least 100 days of work.

Table 3. Job creation priorities – Additional MTEF Allocations, 2012/13 – 2014/15

R million	**2012/13**	**2013/14**	**2014/15**	**Total**
Job creation				
Community work programme	590	1,089	1,780	**3,459**
Working for water	150	200	400	**750**
Working on fire	80	100	200	**380**
Mzansi Golden Economy	50	100	150	**300**
National rural youth service corps	200	–	–	**200**
Other job related items	145	429	524	**1,098**
Total	**1,215**	**1,918**	**3,054**	**6,187**

SOURCE: ADAPTED FROM NATIONAL TREASURY BUDGET REVIEW, 2012.

g) The biggest risks to infrastructure appropriations and associated opportunity for job creation are persistent cost overruns and under spending. Every infrastructure project that is delayed and unspent funds translates to a missed development and job creation opportunity. Of the R260 billion planned infrastructure spending for 2010/11, only 68% or R178 billion was spent. The level of under spending cuts across the entire three spheres including SOEs by a margin beyond the standardised 8% National Treasury guideline. The main culprits are SOEs such as ACSA and TCTA with under spending of over 50% as indicated in Table 4. Public Private Partnerships and non financial public enterprises under spent their budget by 39% respectively. Under spending not only deprives South Africa of the much needed growth and jobs but also contributes to overstating of publicly available resources and infrastructure allocations. Subsequent allocations following a year of under expenditure are only indicative of lagged spending rather than new addition to the infrastructure budget baseline.

Table 4. Public infrastructure investment under spending by sector, 2010/11

R million	Budget	Actual	Percentage underspent
National departments	5,813	5,799	0.2%
Provincial departments	45,649	39,083	14.4%
Local government	42,265	30,945	26.8%
Extra-budgetary institutions	11,617	8,671	25.4%
Public private partnerships	11,974	7,308	39.0%
Non-financial public enterprises	143,087	85,992	39.9%
of which			
Transnet	*22,831*	21,500	5.8%
Eskom	*52,409*	44,325	15.4%
CEF	*11,672*	*236*	98.0%
TCTA	*3,955*	*352*	91.1%
ACSA	*1,255*	*505*	59.8%
Rand Water	*1,200*	*1,012*	15.7%
Total	**260,407**	**177,799**	**31.7%**

SOURCE: ADAPTED FROM NATIONAL TREASURY BUDGET REVIEW, 2012.

3.3 PROVINCIAL SPHERE AND EXTENT OF CMS FUNDING

a) Provinces do not directly receive a significant portion of the 2012 appropriations from new allocations. The only additional allocations to provinces come as portion of compensation of employees of R5.6 billion for which provinces receive 2.3 billion. The remainder of the appropriated amounts for provinces are in the form of a conditional grant for informal settlements upgrading of R139 million. The rest of provincial baselines are funded from savings and reprioritisation.

b) The increased economic infrastructure expenditure by government is aimed at a country-wide improvement and increment of both the efficiency and network of infrastructure that are the responsibility of provinces. Such economic infrastructure (roads, railways, and ports) and social infrastructure (which includes schools, health and social welfare facilities) benefit provinces.

Table 5. Total Provincial aggregated budgets and expenditure as at 31 December

R thousand	**Adjusted budget**	**Projected outcome**	**Actual spending as at 31 December 2011**	**Actual spending as % of adjusted budget**	**(Over)**	**Under**	**Net**	**% (Over)/ under of adj. budget**	**% share of Tot. Prov. Expend.**
Eastern Cape	54,327,119	54,782,534	40,243,237	*74.1%*	-455,415	–		*-0.8%*	*14.8%*
Free State	24,185,740	26,100,620	17,917,664	*74.1%*	-1,914,880	–		*-7.9%*	*6.6%*
Gauteng	68,886,688	69,839,323	50,143,235	*72.8%*	-952,635	–		*-1.4%*	*18.4%*
KwaZulu-Natal	78,387,035	79,074,354	58,033,624	*74.0%*	-687,319	–		*-0.9%*	*21.3%*
Limpopo	44,320,526	44,915,084	32,719,677	*73.8%*	-594,558	–		*-1.3%*	*12.0%*
Mpumalanga	29,967,202	29,867,602	21,514,612	*71.8%*	–	99,600		*0.3%*	*7.9%*
Northern Cape	10,962,237	11,064,151	7,950,152	*72.5%*	-101,914	–		*-0.9%*	*2.9%*
North West	25,036,317	25,190,209	17,167,968	*68.6%*	-153,892	–		*-0.6%*	*6.3%*
Western Cape	37,050,880	37,055,091	26,361,873	*71.2%*	-4,211	–		*0.0%*	*9.7%*
Total	**373,123,744**	**377,888,968**	**272,052,042**	***72.9%***	**-4,864,824**	**99,600**	**-4,765,224**	***-1.3%***	***100.0%***
Per key Departments									
Education	156,767,834	158,285,103	118,217,063	*75.4%*	-1,569,098	51,829	-1,517,269	*-1.0%*	*43.5%*
Health	111,872,245	113,788,521	81,844,979	*73.2%*	-2,263,168	346,892	-1,916,276	*-1.7%*	*30.1%*
Social Development	11,798,633	11,608,505	8,317,679	*70.5%*	–	190,128	190,128	*1.6%*	*3.1%*
Total	280,438,712	283,682,129	208,379,721		-3,832,266	588,849	-3,243,417	-0	1
Per key economic classification							–		
Personnel	215,375,783	219,331,452	163,060,071	*75.7%*	-4,027,610	71,941	-3,955,669	*-1.8%*	*59.9%*
Goods and Services	72,524,326	72,971,771	50,477,621	*69.6%*	-969,887	522,442	-447,445	*-0.6%*	*18.6%*
Payment for Capital	29,469,102	28,297,061	18,113,973	*61.5%*	-121,489	1,293,530	1,172,041	*4.0%*	*6.7%*
Total						**1,815,972**			

SOURCE: NATIONAL TREASURY, 2011/12 SECTION 32 PFMA REPORT

c) The Commission notes with concern the persistent provincial over expenditure on personnel budgets for year 2011/12 as at December 2011 presented in Table 5. This is also worsened by the high under expenditure on capital expenditure. From an allocation point of view resources are allocated to the correct areas but are inefficiently utilised by the provinces. Seventy per cent of this R3.3 billion allocated in the first year is earmarked for personnel cost, leaving just below R1 billion for provinces to deal with other pressing needs. Increases in personnel costs remain a major concern. Because such costs are de facto a first charge on budgets, there is a real possibility that this may seriously compromise future service delivery. There is a pressing need to not only deal with personnel issues but also efficiency issues pertaining to complementary inputs (i.e. the other goods, services, infrastructure and other resources needed to deliver public services) and how they deployed.

d) A province-by-province analysis from the third quarter Section 32 Public Finance Management Act (PFMA) reports shows that provinces received an adjustment of R5.3 billion to their baselines (R3.2 billion through the provincial equitable share and R2.1 billion through conditional grants). Provinces that exhibit over-expenditure above the provincial average include KwaZulu-Natal, Gauteng and Limpopo. The biggest cost driver for all the provinces that overspend is personnel, which currently makes up 59.9% of all provincial expenditure. Provinces that also remain a concern in respect of personnel expenditure are Gauteng, Limpopo and the Eastern Cape.

e) There are concerns that human resource systems and practices across provinces are not in place or failing. Generally, if overspending on personnel is a true reflection of pressures on provincial budgets, it may be necessary for government to undertake an audit of all government employees to ensure that no funds are lost due to ‘ghost’ personnel or double payments and organisational design interventions to ensure the appropriate mix of skills, frontline versus back office personnel etc. At the heart of the matter is national government’s negotiation strategy which is outside the direct control of provinces. Provinces really only control the numbers, and because of labour laws, retrenchments are a protracted and costly procedure. There are also instances where human resource management has failed, where certain provinces continue to hire employees or fill post without a budget. To address this problem the relevant accounting officers should be made accountable through the PFMA. There is also a need for a focus on value for money and productivity of personnel, with particular emphasis on whether wage levels are appropriate and ensuring that the right skills are deployed.

f) R 1.3 billion of the R29.5 billion made available to provinces through the capital budget is under spent. In the previous year of appropriation the Commission raised its concern about the R2.5 billion for the infrastructure grants to provinces that was under spent. 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 massive backlogs will persist.

g) There are challenges in provincial infrastructure delivery that are persistent. The under spending in capital reflects challenges in planning, project appraisal, financing, lack of options analysis in the delivery of infrastructure to lack of capacity in the delivery departments. Challenges in supply chain management and procurement, including corruption, also contribute to sluggish expenditure and by implication delivery of quality projects. The Commission emphasise that expenditure by government should ensure that it produces high quality physical infrastructure that matches the rate of investments.

3.4 Local Sphere and Extent of CMS Funding

a) CMS in the local government sphere include potable water, electricity, public transport, sanitation and refuse removal. Local authorities are constitutionally mandated to provide these services adequately and efficiently. However, backlogs and capacity challenges of varying magnitude exist across the spectrum of local authorities in the provision of these basic services. In the recent past poor delivery of basic services has given rise to many protests. Key policy pronouncements for 2012 (State of the Nation Address and National Budget Speech), indicate a specific emphasis on extending the provision of basic services over the current MTEF period.

b) In the local government sphere, CMS are funded from two main sources - the local government equitable share (LES) allocation and own revenues generated by municipalities. The extent to which municipalities rely on these two sources of revenue varies. Urban municipalities raise the majority of their own revenues whereas more rural municipalities rely heavily on transfers. The LES allocation thus provides critical funding, especially to poorer municipalities who would be unable to sustain themselves through the low revenue base within their borders. Whereas funding of priorities through the LES featured consistently up until the 2010/11 financial year, albeit with significant fluctuations, this dropped off the agenda in 2011/12. During the 2012/13 financial year, a R300 million addition is made to the LES. This addition is as a result of saving and reprioritization within government and is targeted at poorer, rural municipalities to support the funding of administrative costs in these municipalities. The Commission would like to emphasise two points in this regard:

i. The first point is to reiterate a caution regarding the establishment of a funding stream that may disincentivise councillors and ward committees from collecting more own revenues and create problems with the accountability framework for municipalities (See Commission response to the Division of Revenue Bill 2012).

ii. Given that increases to the LES are specifically geared at providing special support in respect of councillor remuneration, the Commission is concerned about the ability of municipalities particularly in the current economic environment to adequately fund the roll-out of basic and free basic services. This is particularly important in light of increasing costs attached to the provision of these basic services, especially large increases in the bulk price of electricity. Such price shocks, if not appropriately factored in to the LES, will likely place a strain on municipal revenues, which would not augur well for eradicating backlogs and meeting new additional demands for basic services.

c) Prioritizing funding for the delivery of CMS in the local government sphere can also be channeled through non-discretionary, conditional grant funding, particularly infrastructure-related grants for example those targeting municipal infrastructure, transport and water schemes, public transport roads and rail infrastructure and regional bulk infrastructure. 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 society. Notwithstanding the importance of this type of funding in helping government to balance the need between expanding access to basic services and addressing increasing backlogs, the inconsistency over the years is cause for concern. For example, funding directed towards municipal infrastructure, transport and water schemes was a priority in 2008/9 and 2011/12, but falls off the agenda in 2012/13. To ensure development of a sector requires a multi-year approach that recognises that it takes time for government departments to implement plans. The current practice, which sees areas prioritised for one year and then being dropped off the list of priorities, is not a practical or sustainable way of ensuring development, particularly in light of existing financial and human capital constraints. For 2012/13, two areas are afforded priority, namely regional bulk infrastructure and electricity demand side management.

iii. Increases to regional bulk infrastructure arise as a result of shifting funds away from the underperforming Rural Household Infrastructure Grant. The Commission expresses concern with the approach of addressing underperformance in one grant through shifting funds to another. Symptomatic problems underlying poor performance should be addressed – this is raised particularly in light of the fact that the Rural Household Infrastructure Grant will be merged with the Municipal Infrastructure Grant in 2014/15.

iv. With respect to energy, government's[2] focus is on demand side management – this in an attempt to address the impact of limited supply until new generation capacity comes online. The Commission has, on several occasions, raised the need for stability and predictability within the local government fiscal framework so as to aid better planning by municipalities. This is important in the context of the current approach to establishing and terminating conditional grants. The Electricity Demand Side Management Grant was established in 2008 as a result of the load shedding being experienced at the time and was meant to be terminated after three years. Now, given increased awareness around environmental and energy security, this grant has been extended up until 2014. It is unclear whether, during the original envisaged life-span of the grant, it achieved its intended outcomes and thus, whether it remains a good tool for prioritizing energy efficiency.

Table 6. Local Government and Funded Priorities

R' million	2008/09	2009/10	2010/11	2011/12	2012/13
LES	1,114	491	900		300
Municipal infrastructure, transport and water schemes	604			840	
Public transport, roads and rail infrastructure			468		
Regional bulk infrastructure			54		382

[2] See Budget Review, 2012, page 120.

Green economy				200	
Electricity demand side management					200
Municipal disaster grant				470	

SOURCE: DIVISION OF REVENUE BILL, 2012.

4. GOVERNMENT POLICY PRIORITIES IN THE UTILISATION OF THE NATIONAL REVENUE FUND

4.1. In this year's Division of Revenue Bill, government identified top four policy priorities for the 2012/13 financial year namely:

- Promoting economic support and development;
- Investment in infrastructure;
- Job creation; and
- Enhancing local government capacity

4.2. A sectoral categorization of the budget priority table from table W1.3 of the Division of Revenue Bill indicates that a total additional R60 billion (made up of R18.9 billion from new allocations and R41 billion from savings and reprioritization of existing baselines) was added to the fiscus this year, bringing total expenditure amongst the three spheres to R874.1 billion in 2012/13, from R814 billion in 2011/12. This shows that government remains focused on increasing efficiency by eliminating wasteful expenditure.

5. CONCLUSION

5.1. The biggest concern for the period under review remains that compensation of employees/personnel costs continues to be 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.

5.2. A combination of rises in personnel expenditure with low capital and maintenance expenditure coexisting with low output and instances of inconsistent prioritization (especially for non CMSs) has potential to threaten progressive realisation of basic services to the poor.

5.3. The Commission's analysis of the appropriations by government over the past five years shows that while resources are generally efficiently allocated to priority areas, the need remains for government to improve spending in order to positively contribute to the lives of all South Africans.

For and on behalf of the Financial and Fiscal Commission

Mr. Bongani Khumalo
Acting Chairperson/CEO