



# Financial and Fiscal Commission Submission on the Medium Term Budget Policy Statement 2010

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Joint Meeting of the Standing and Select Committees on Finance  
and Appropriations

2 November 2010

# Background

- Submission: response to requests from Appropriations Committees of Parliament for FFC to comment on the 2010 MTBPS
  - In terms of Part 1 (3) {1} of the FFC Act (2003) as amended
    - Provides for Commission to act as a consultative body and make recommendations to organs of state in all spheres on financial and fiscal matters
  - And Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009)
    - Requires Committees of Parliament to consider the FFC's recommendations when dealing with money bills and related matters

# Outline of the Submission

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1. Overall Fiscal Framework and Fiscal Consolidation
  - Global Economy and Potential Risks for South African Economy
  - Summary of the Fiscal Austerity (Consolidation) Measures and Job Creation
  - Growth, Social Services and Infrastructure
  - Financing of New Imperatives: MDGs and Health
2. Spending Priorities of National Government for the Next 3 Years
3. Proposed Medium Term Expenditure Framework and the Division of Revenue between the Spheres of Government
4. Proposed Substantial Adjustments to Conditional Grants Allocations to Provinces and Local Government
5. Review of Actual Spending by National and Provincial Government between 1 April and 30 September 2010



# 1. Overall Fiscal Framework and Fiscal Consolidation

# Global Economy and Potential Risks for South African Economy

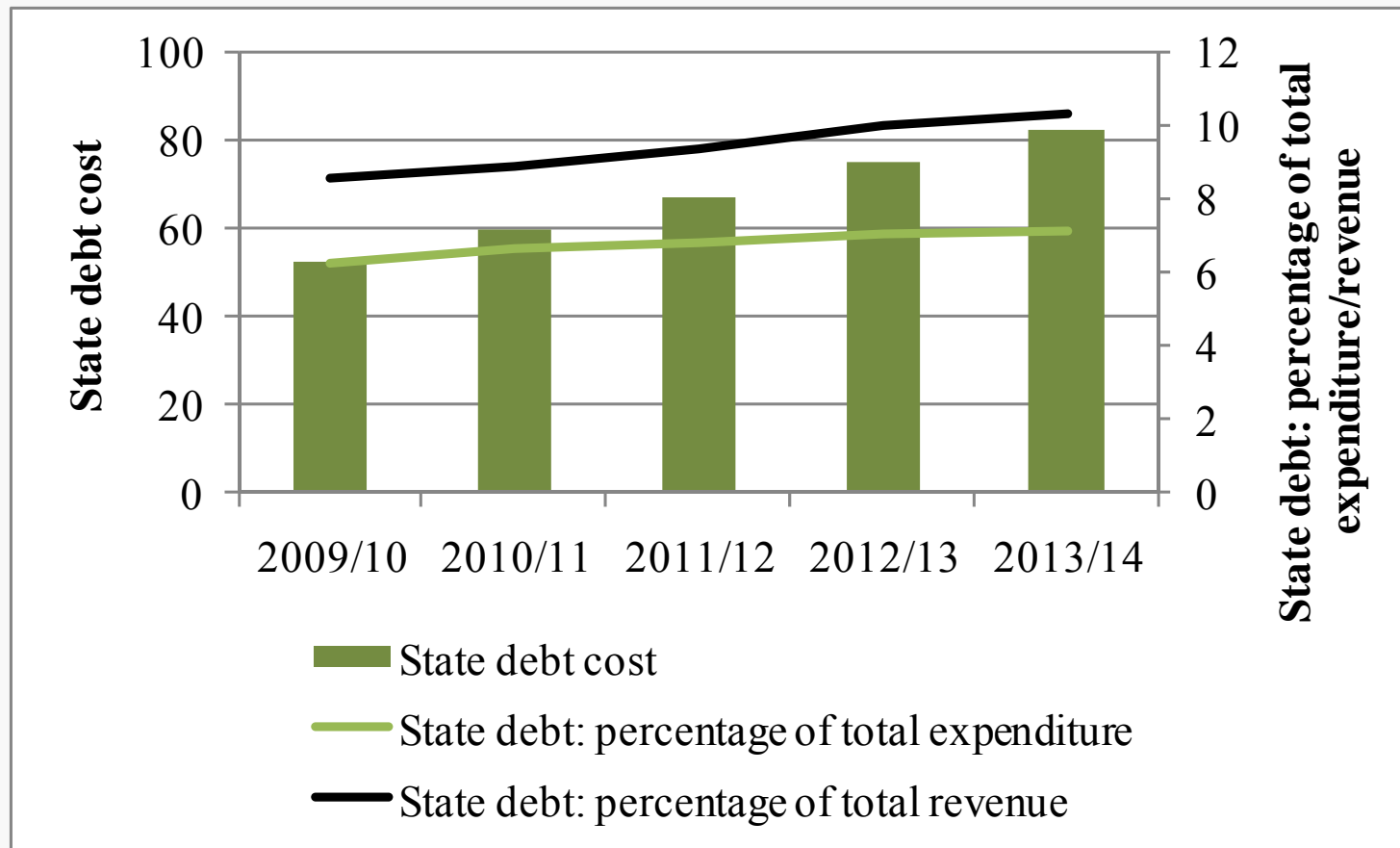
- Prudent macroeconomic policy provided SA with fiscal and monetary space following the global economic crisis of 2007/8
  - The repo rate decreased from 12% in 2008 to a current 6%
  - Budget deficit increased from a surplus of 0.9% to 7.3% of gross GDP
- In line with the FFC's projected 2011 submission of a moderate recessionary impact, the IMF and SARB forecast a moderate 3.2 % growth - possible challenges:
  - Interruptions in global recovery
  - Exchange rate volatility
  - Human resource needs and labour markets
  - Access to budget deficit financing might be constrained
  - Persistent budget deficit over the medium term

# Summary of the Fiscal Austerity (Consolidation) Measures and Job Creation

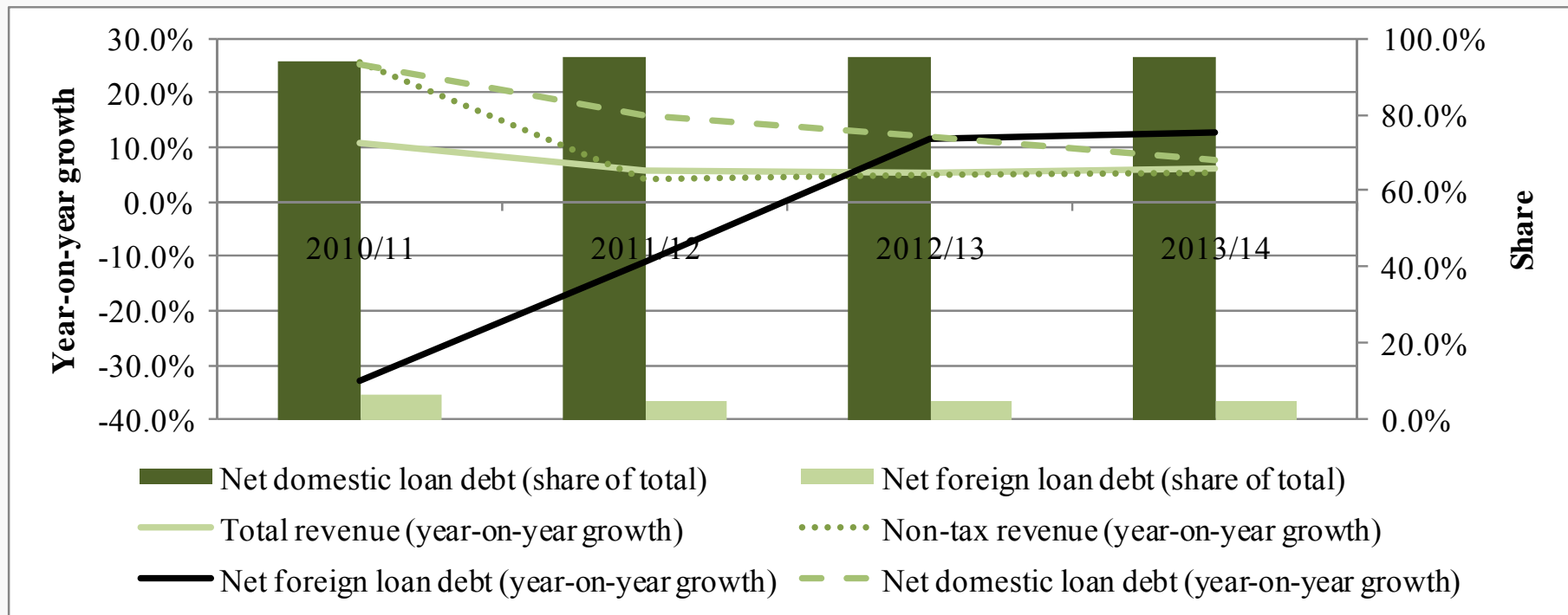
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- Fiscal austerity (fiscal consolidation) may be harmful to economic growth
- Floating exchange rate regime as well as an accommodative monetary policy will need to facilitate the process of fiscal consolidation
  - Government should actively look for ways to increase productivity – ICT
  - A need for consistent policies and implementation strategies (including resources) to be put in place to address this issue

# State Debt Projections



# Loan Debt and Revenue





# Economic Growth, Social Services and Infrastructure

- SA needs a faster and more inclusive economic growth
  - MTBPS's combination of poverty alleviation and employment creation (education and skills development, spending on infrastructure and rooting out corruption) is welcomed by commission
- Challenges for economic growth
  - SA: high spending on social services, but impact and social returns remain below expectation
  - Increased access in other social services needs to be accompanied by quality improvements
- Infrastructure funding vs. capacity issues need urgent redress
  - Especially with provincial and LG conditional grants
- Government needs to accelerate implementation of approved infrastructural projects
  - Increase spent on maintenance and rehabilitation

# Financing of New Imperatives: MDGs and Health

- Commission's 2011 DOR submission cautioned against implementing large and expensive new government programmes in the face of fiscal consolidation
  - MDGs and NHI are important in closing the gap in the health sector
    - However, government needs to demonstrate capacity to proceed with these in the face of fiscal consolidation efforts
- Government needs to provide more detail especially on the proposed NHI and the new growth path
  - Constitute important developments in the system that would require detail, especially in relation to the implications for the three spheres of Government
  - Such detail will enable the Commission to more effectively engage with processes at a fairly early stage



## 2. Spending Priorities of National Government for the Next Three Years

# Expenditure Contribution to Economic Growth

- Health and to a lesser extent agriculture, education and housing contribute positively to growth
  - However, their spending projected to decrease while their share of expenditure remains unchanged over the medium term
- Defence, public order and safety, housing and community amenities, education, and social protection are among votes that got revised upwards
- Commission's concern is the downward revisions of agriculture and health as they are positively contributing to economic growth and constitute an identified key outcome of government



### 3. Proposed Medium Term Expenditure Framework and the Division of Revenue between the Spheres of Government

# MTEF and DoR Between Spheres of Government

- Total expenditure grows R748 billion in 2010/11 to R914 billion in 2013/14
  - This represents a 6.9 % growth over the 2011 MTEF
  - Provinces and LG grow each at more than 7% essential to sustain service delivery and protect the poor and vulnerable
  - National share of the Division of revenue declines from 48.2% in 2010/11 to 46.7% in 2013/14
  - Provincial and LG shares increase from 43.9% and 7.9% to 44.6% and 8.6%, respectively

Division of Revenue, 2010/11-2013/14	2010/11	2011/12	2012/13	2013/14	2011	Average annual growth
R billion	Revised	Medium-term estimates		MTEF	2010/11 – 2013/14	
<b>National</b>	<b>360.6</b>	<b>374.5</b>	<b>401.0</b>	<b>427.3</b>		<b>5.8%</b>
<b>Provincial</b>	<b>328.1</b>	<b>359.5</b>	<b>382.3</b>	<b>407.7</b>		<b>7.5%</b>
Equitable share	265.1	289.0	305.7	323.3		6.8%
Conditional grants	63.0	70.5	76.6	84.4		10.2%
<b>Local</b>	<b>59.3</b>	<b>67.2</b>	<b>74.0</b>	<b>79.0</b>		<b>10.0%</b>
Equitable share	30.6	34.1	37.6	40.0		9.4%
Conditional grants	21.2	24.5	27.4	29.5		11.6%
<b>General fuel levy sharing with metropolitan municipalities</b>	<b>7.5</b>	<b>8.6</b>	<b>9.0</b>	<b>9.6</b>		<b>8.4%</b>
<b>Total</b>	<b>748.1</b>	<b>801.2</b>	<b>857.3</b>	<b>914.1</b>		<b>6.9%</b>
<b>Percentage share</b>						
<i>National</i>	48.2%	46.7%	46.8%	46.7%		
<i>Provincial</i>	43.9%	44.9%	44.6%	44.6%		
<i>Local</i>	7.9%	8.4%	8.6%	8.6%		
<b>Changes to baseline</b>						
<b>National</b>	<b>1.5</b>	<b>4.0</b>	<b>7.3</b>	<b>12.5</b>	<b>23.8</b>	
<b>Provincial</b>	<b>5.3</b>	<b>9.0</b>	<b>13.0</b>	<b>18.2</b>	<b>40.1</b>	
Equitable share	4.2	8.3	10.3	11.2	29.8	
Conditional grants	1.1	0.7	2.7	7.0	10.3	
<b>Local</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>	<b>1.6</b>	<b>3.1</b>	
Equitable share	0.4	0.2	0.3	0.7	1.2	
Conditional grants	0.1	0.3	0.6	0.8	1.7	
<b>General fuel levy sharing with metropolitan municipalities</b>	<b>–</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	
<b>Total</b>	<b>7.3</b>	<b>13.5</b>	<b>21.3</b>	<b>32.3</b>	<b>67.0</b>	

# Provincial Government Issues

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- Transfers to provinces (ES and CGs) grow from a revised R328 to R407.7 billion representing a real growth of 4.3% over the MTEF
  - The PES grows from a revised R265 to R323 billion over the MTEF
  - The fastest growth of 10.2% is for CG grants baselines growing from R63 to R84 billion over the MTEF
  - The biggest challenge for the sphere is the rise in personnel spending compared to other spending items that lead to growth and development



# Local Government Issues

- R3.1 billion increase to local sphere over MTEF, of which:
  - R1.2bn for LES, R1.7bn for CG's, R300m for Fuel Levy
- Increases in LES over MTEF welcomed
  - Increases to be informed by costing of municipal expenditure pressures
- Changes to LES and commitment to reviewing formula commended – two important issues for the Commission
  - Unconstitutional aspects of RRC Component
  - Targeted funding to poorer municipalities supported and in line with FFC recommendations. Caution against potential negative effects on middle-income municipalities

# Local Government Issues (cont.)

- R1.8 billion in conditional grant rollovers highlights poor performance (particularly infrastructure)
  - Municipalities to be appropriately capacitated to ensure spending and objectives of conditional grants are achieved
- Critical issues for the local sphere remain unresolved
  - Accreditation, restructuring of EDI, replacement for the RSC levy for districts and the need for greater certainty around roles/responsibilities of local and district municipalities
- Extent of benefits possible from devolution of property rates grant to provinces dependant on provincial efficacy in transferring funds/paying municipalities

# Proposed Adjustments to Conditional Grants Allocations to Provinces and LG

R thousand	Adjusted budget	Pre-audited outcome as at 31 March 2010	Equitable share per province	Share of Adjusted Budget	Share of Expenditure Outcome	% Deviation from Equity
Eastern Cape	44,565,434	45,234,576	15.2%	14.7%	14.8%	-0.4%
Free State	19,351,054	18,783,121	6.0%	6.4%	6.1%	0.1%
Gauteng	58,546,671	59,695,097	17.4%	19.3%	19.5%	2.1%
KwaZulu-Natal	61,906,779	63,811,448	22.0%	20.4%	20.9%	-1.1%
Limpopo	35,954,875	35,596,564	12.6%	11.8%	11.7%	-0.9%
Mpumalanga	23,856,044	23,683,918	8.1%	7.8%	7.8%	-0.4%
Northern Cape	8,390,707	8,178,513	2.7%	2.8%	2.7%	0.0%
North West	20,670,779	20,365,345	6.7%	6.8%	6.7%	0.0%
Western Cape	30,672,104	30,113,167	9.2%	10.1%	9.9%	0.6%
<b>Total</b>	<b>303,914,447</b>	<b>305,461,749</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

- Some of the provinces use adjustments to fund unauthorised personnel expenses; others made an effort to spend within their allocated amount
- Adjustment exercise may lead to a distortion in the Constitutionally intended equity of the PES and progressive realisation by all provinces



## 4. Proposed Substantial Adjustments to Conditional Grants Allocations to Provinces and Local Government

<b>Proposed Revisions to Provincial Grant Allocations, 2011/12-2013/14 (R million)</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
<b>Technical revisions</b>				
<b>Health</b>	–	<b>-620</b>	<b>-1,154</b>	<b>-1,774</b>
Forensic Pathology Services Grant	–	-620	-654	-1,274
Hospital Revitalisation Grant	–	–	-500	-500
<b>Public Works</b>				
Expanded Public Works Programme Incentive for the Infrastructure Sector	-244	-241	-201	-686
Social Sector EPWP Incentive Grant for Provinces	244	241	201	686
<b>Addition to baselines</b>				
<b>Agriculture, Forestry and Fisheries</b>	<b>50</b>	<b>120</b>	<b>230</b>	<b>400</b>
Comprehensive Agricultural Support Programme	50	120	230	400
<b>Higher Education and Training</b>	<b>104</b>	<b>536</b>	<b>864</b>	<b>1,504</b>
Further education and training colleges	104	536	864	1,504
<b>Health</b>	<b>60</b>	<b>60</b>	<b>1,360</b>	<b>1,480</b>
Comprehensive HIV and Aids	60	60	1,360	1,480
<b>National Treasury</b>	<b>100</b>	<b>1,415</b>	<b>3,689</b>	<b>5,204</b>
Infrastructure Grant to Provinces	100	1,415	3,689	5,204
<b>Public Works</b>	<b>338</b>	<b>528</b>	<b>752</b>	<b>1,618</b>
Devolution of Property Rate Funds	338	527	695	1,560
<b>Social Sector EPWP Incentive Grant for Provinces</b>	–	1	57	58
<b>Total Additions to baselines</b>	<b>652</b>	<b>2,659</b>	<b>6,895</b>	<b>10,206</b>

# Conditional Grants

- CG's are being reviewed, others could be merged and/or rationalised while others may be consolidated into the equitable share
- Education Conditional Grants
  - Dinaledi Schools: Mathematics and science identified as key but low pass rates do not augur well for the future
- Health Conditional Grants
  - Comprehensive HIV and AIDS: A mismatch between burden of disease and population is disproportionately high
- National Tertiary Services Grant
  - The health expenditure is dominated by tertiary-level hospitals, therefore the next tier of hospitals are negatively affected, therefore the same effort be directed towards *primary health care facilities*
- Eradication of Backlogs in Education and Health Infrastructure  
government should reconsider its decision to discontinue grants in these areas

# Conditional Grants (cont.)

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- Agriculture Grants
  - CASP, Ilima letsema and Mafisa
  - Makes economic sense to merge these current conditional grants into one comprehensive agriculture finance programme as their impact individually is limited
- EPWP Incentive Grant for Infrastructure
  - Low expenditure noted
  - Effective reporting of EPWP projects will allow municipalities to access incentives grants



# 5. Review of Actual Spending by National and Provincial Government between 1 April and 30 September 2010



# Review of Actual Spending by National and Provincial Government

- Assuming a smoothed out expenditure between the four quarters of the year, expenditure needs to be at 50 % as a norm by September 2010
- Such expenditure smoothing would most likely lead to improved quality of spending and reduce level of unauthorised spending
- Total government spending 1.8 percent below the 50% norm at R394 billion to a total of main budget of R818 billion
- Government programs that drives government recent priorities (Education, Health, Justice and Policing, and key Build Environment programmes such as Energy, Housing and Rural Development) have spent 50%
- Provinces have only spent 46.4% of their main budget.
  - This represents an under-spending of about 3.7% below the norm
  - However, this is expected to pick up considerably with implementation of recently concluded salary negotiations

<b>Aggregate Spending and Deviation from the Norm (R 1,000)</b>	<b>Main Budget</b>	<b>Spending as at September 2010</b>	<b>% expenditure</b>
<b>Total Expenditure</b>	<b>350,625</b>	<b>170,975</b>	<b>48.8%</b>
<b>Appropriation by Vote</b>	461,518	223,460	48.4%
<b>Direct charges against Revenue Fund</b>	818,143	394,436	48.2%
<b>Fuel levy</b>	7,542	2,514	33.3%
<b>State debt cost</b>	71,358	32,988	46.2%
<b>Other charges against national Revenue fund</b>	10,751	4,986	46.4%
<b>PES Transfers from National</b>	<b>260,974</b>	<b>130,487</b>	<b>50.0%</b>
<b>Selected Key budget Votes</b>	<b>168,348</b>	<b>84,118</b>	<b>50.0%</b>
<b>6. Public Works</b>	6,446	2,780	43.1%
<b>14. Basic education</b>	6,166	2,834	46.0%
<b>15. Health</b>	21,497	10,599	49.3%
<b>16. Higher Education and Training</b>	23,721	17,292	72.9%
<b>20. Correctional Services</b>	15,129	6,504	43.0%
<b>23. Justice and Constitutional Development</b>	10,250	4,632	45.2%
<b>24. Police</b>	52,556	24,752	47.1%
<b>25. Agriculture, Forestry and Fisheries</b>	3,658	1,894	51.8%
<b>27. Economic Development</b>	419	171	40.8%
<b>28. Energy</b>	5,535	2,089	37.7%
<b>30. Human Settlements</b>	16,201	7,798	48.1%
<b>32. Rural Development and Land Reform</b>	6,770	2,773	41.0%
<b>PES Expenditure at provincial level</b>	<b>329,810</b>	<b>152,612</b>	<b>46.3%</b>
<b>Education</b>	137,439	65,487	47.6%
<b>Health</b>	98,381	46,315	47.1%
<b>Social Development</b>	10,236	4,332	42.3%
<b>other</b>	83,755	36,479	43.6%

# Conclusion

- MTBPS is a key first milestone conversation about budget process that will culminate in tabling of 2011 Budget
- Needs to provide more detail on economic policy direction of government which frames the fiscal environment in which the intergovernmental fiscal relations system must operate for effective Commission engagement
- The Commission, through its evidence based research and impartial policy advice, will be engaging further with Government through the consultative processes prescribed in legislation