STANDING AND SELECT COMMITTEES ON FINANCE AND APPROPRIATIONS 2014 MTBPS PROGRAM WORKSHOP

Financial and Fiscal Commission

16 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Background and Legislative Framework for MTBPS
2. Economic Outlook and Priorities: NDP, MTSF and MTBPS
3. Fiscal Frameworks and MTBPS
4. Division of Revenue, Adjustments and Other Issues
5. FFC Recommendations and Submission Outline for 2014 MTBPS

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1. Background and Legislative Framework

LEGISLATIVE FRAMEWORK

- In terms of Section 6 of the Money Bills Amendment Procedures and Related Matters Act (MBAPRMA), at least 3 months before tabling the national budget, the Minister of Finance must submit to Parliament the Medium Term Budget Policy Statement (MTBPS)
- The MTBPS must contain the following (S6(2) MBAPRMA):
  a) A revised fiscal framework for the present year and the proposed fiscal framework for the next 3 years;
  b) An explanation of the macro-economic and fiscal policy position, the macroeconomic projections and the assumptions underpinning the fiscal framework;
  c) Spending priorities of the national government for the next three years;
  d) The proposed division of revenue between the spheres of government and between the arms of government within a sphere for the next three years;
  e) The proposed substantial adjustments to conditional grants allocations to national and provincial governments, if any and
  f) A review of actual spending by each national department and each provincial government between 1 April and 30 September of the current fiscal year

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LEGISLATIVE FRAMEWORK

- Parliament or the National Council of Provinces (NCOP) may refer (a) and (b) to the committee on finance and (c), (d) and (e) to committee on appropriations (S6, MBAPRMA)
- The committee on finance and the committee on appropriations have 30 days after the tabling of the MTBPS to submit a report to Parliament or NCOP
    - The report by the committee on finance may include recommendations to amend the fiscal framework if it has remained materially unchanged in the national budget
    - The report by the committee on appropriations may include a recommendation to amend the Division of Revenue (DOR) if it has remained materially unchanged in the DOR Bill
- A committee on finance and appropriations must report on and consider the recommendations of the Financial and Fiscal Commission (FFC) (S4(4)(c) MBAPRMA)

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KEY ECONOMIC AND FISCAL POLICY CONCEPTS IN MTBPS

- Economic
  - Macro-economic stability
  - Current account balance and current account deficit
  - Inflation targeting and monetary policy
  - Economic growth
- Budget
  - Budget in real or nominal terms
  - Budget surplus vs. budget deficit
  - Debt to GDP ratio
  - Expenditure ceiling
  - Contingency reserve
- Fiscal policy
  - Fiscal consolidation
  - Expansionary, contractionary and counter-cyclical fiscal policy

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2. Recent Economic Developments And Implications for MTBPS

ECONOMIC OUTLOOK

- According to the MBAPRMA, the MTBPS must contain an assessment of the macro-economic outlook and fiscal policy stance as well as assumptions that underpin it
- The table below presents the macroeconomic outlook that was published in the budget review in Feb 2014

Table 1.1 Macroeconomic outlook – summary

	2013	2014	2015	2016
Real percentage growth (unless otherwise indicated	**Estimate**		**Forecast**	
Household consumption	2.7	2.8	3.2	3.4
Gross fixed capital formation	3.2	4.2	5.3	6.0
Exports	4.8	5.6	6.3	7.0
Imports	7.3	5.3	6.1	7.0
Gross domestic product	**1.8**	**2.7**	**3.2**	**3.5**
Consumer price inflation (CPI)	5.7	6.2	5.9	5.5
Current account balance (% of GDP)	-6.1	-5.9	-5.8	-5.5

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by " ". If data is not available it is denoted by "N/A"

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Economic Outlook

- South African financial sector was insulated from the crisis
  - Banking sector was in good condition
  - Household debt increased but less than in many other countries
  - Long-term housing price development relatively moderate
- In contrast the global recession hit real economy hard
  - Worldwide collapse in trade
  - Composition of South African exports (commodities)
  - Exports declined in 2009
- In 2009 GDP declined by 1.7 %
  - First recession in 17 years

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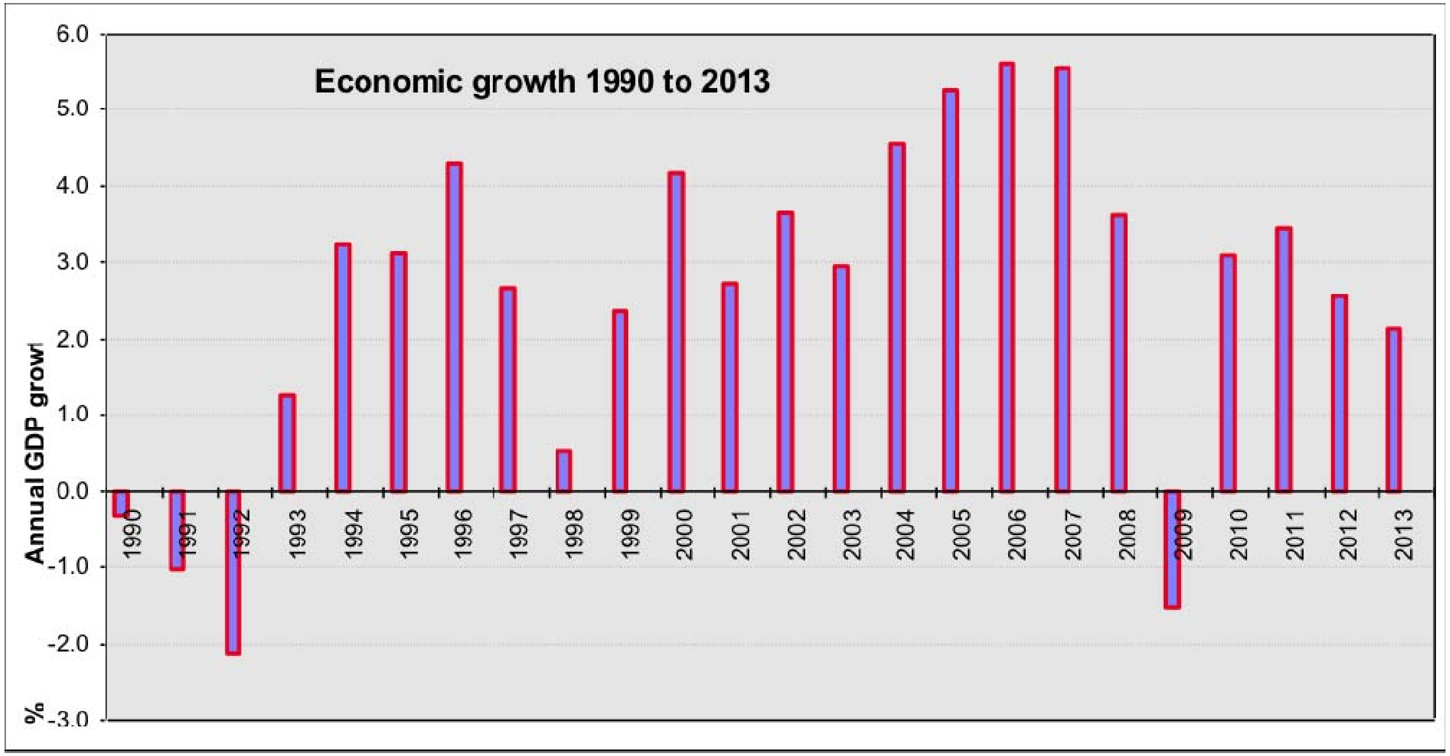
MACROECONOMIC PERSPECTIVE

Economic growth rate % pa real GDP



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ECONOMIC OUTLOOK

- South Africa still some way from restoring strong and sustainable economic growth rates as required by the National Development Plan (NDP)
  - Growth forecast in 2014 is expected at 1.7% compared to 2.1% previously. Mainly due to protracted strike action in mining and manufacturing sectors
- Inflation expected to average 6.3% in 2014 compared to 6.2% previously
  - Largely due to exchange rate depreciation, ↑ in price of food and possibly wage-price spiral resulting from recent wage settlements in excess of inflation and productivity growth
- While overall employment ↑ by 42 000 jobs in year to end of March 2014, 49 000 jobs were created in the public sector while the private sector shed jobs, especially in mining sector where 29 000 jobs were lost (Reserve Bank, 2014)

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ECONOMIC OUTLOOK: LIKELY MTBPS IMPLICATIONS

- When the MTBPS is tabled in October, macroeconomic outlook in Budget 2014 may be revised
  - Likely to see a downward revision of GDP growth due to the protracted strike action in the mining and manufacturing sectors, slower economic recovery of main trading partners such as EU and the US, likely decline of commodity prices and binding constraints in electricity production
  - CPI likely to be revised upwards due to the exchange rate depreciation, increase in the price of food and wage-price spiral resulting from wage settlements in excess of inflation and productivity growth
- A poorer economic outlook means lower tax revenues and slower employment expansion

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Economic Outlook: Likely MTBPS Implications

- Government's macroeconomic policy is based on maintaining macroeconomic stability, inflation targeting, supported by countercyclical fiscal policy and flexible exchange rate
  - Likely to see a continuation of policy position in 2014 MTBPS as it ensures finances are sustainable and that individual savings and social security benefits are not eroded by high inflation
- The MTBPS must address the following critical questions
  - How is government acting on key NDP proposals?
  - How is government going to address short and medium term concerns in key economic sectors?

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PRIORITIES

- In August government released its Medium-Term Strategic Framework (MTSF) for the period 2014 to 2019
- The MTSF can be interpreted as a medium-term version of the NDP, identifying similar priorities, but limiting the goals to the next five years rather than up to 2030 as is the case with the NDP
- Many of the goals are laudable, including the attainment of a 5% GDP growth rate by 2019 and the creation of five million new jobs by the end of the decade.

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Priorities

- MTSF priorities
  - radical economic transformation, rapid economic growth and job creation
  - rural development, land and agrarian reform and food security
  - ensuring access to adequate human settlements and quality basic services
  - improving the quality of and expanding access to education and training
  - ensuring quality healthcare and social security for all
  - fighting corruption and crime
  - social cohesion and nation building
- MTSF contains two overarching strategic themes, viz. radical economic transformation and the improvement of service delivery
- Incorporated into its plans are the previously announced New Growth Path, National Infrastructure Investment Programme, the Industrial Policy Action Plan (IPAP), Social Security and Retirement Reform and the National Health Insurance (NHI) scheme

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PRIORITIES ASSESSMENT

- General thrust of the MTSF coincides with that of the NDP and makes a lot of sense in terms of what is needed to lift the country's growth rate
  - At the heart of the MTSF is the premise that the private sector is absolutely crucial to economic growth
  - MTSF focuses hugely on the need to uplift education and skills in order to make more of the country's people employable
  - There is reference to the need to uplift the capacity of the state to implement service delivery more efficiently
  - Tied into the notion of improved service delivery is the additional emphasis on appropriate infrastructural investment and development
  - Finally, there is also frequent reference to the need to fight corruption and crime, which are seen to be significant impediments to efficient service delivery

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3. Fiscal Frameworks, Public Debt and MTBPS

FISCAL FRAMEWORK

- According to the MBAPRMA (S6(2)), the MTBPS must contain a revised fiscal framework
- A fiscal framework means the framework for a specific financial year that gives effect to the national executive's macro-economic policy and includes:
  - Estimates of all revenue, budgetary and extra-budgetary specified separately, expected to be raised during that financial year
  - Estimates of all expenditure, budgetary and extra-budgetary, specified separately for that financial year
  - Estimates of interest and debt services charges and
  - An indication of the contingency reserve necessary for an appropriate response to emergencies or other temporary needs, and other factors based on similar objective criteria.

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CONSOLIDATED FISCAL FRAMEWORK

Table 3.1 Consolidated fiscal framework, 2010/11 – 2016/17

R billion/percentage of GDP	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Estimate	Medium-term estimates		
Revenue	762.9	842.3	909.3	1 010.5	1 099.3	1 201.3	1 324.7
	27.8%	*28.3%*	*28.4%*	*29.2%*	*29.0%*	*28.9%*	*29.1%*
Non-interest expenditure	804.7	871.4	951.7	1 041.6	1 131.1	1 218.1	1 306.5
	29.6%	*29.4%*	*29.9%*	*30.3%*	*30.0%*	*29.5%*	*28.8%*
Interest payments	75.3	81.7	93.5	107.7	121.2	133.5	145.1
	2.7%	*2.7%*	*2.9%*	*3.1%*	*3.2%*	*3.2%*	*3.2%*
Expenditure	880.0	953.1	1 045.2	1 149.3	1 252.3	1 351.6	1 451.7
	32.0%	*32.0%*	*32.7%*	*33.2%*	*33.1%*	*32.6%*	*31.9%*
Budget balance	-117.1	-110.8	-135.9	-138.8	-153.1	-150.3	-126.9
	-4.3%	*-3.7%*	*-4.3%*	*-4.0%*	*-4.0%*	*-3.6%*	*-2.8%*

- The table above reflects the consolidated fiscal framework presented in the Budget 2014
- Should interest rates rise as a result of higher than anticipated inflation rate over medium term, we may see an upward revision of interest payments, resulting in the crowding out of non-interest expenditure
- Government likely to re-emphasize its position on expenditure ceilings, supported by limiting expenditure growth through reallocating resources from non-core and underperforming expenditure items
- May see further details on the Davis Tax Committee and future tax reform initiatives (E.g. carbon tax, employment tax incentive, etc.)

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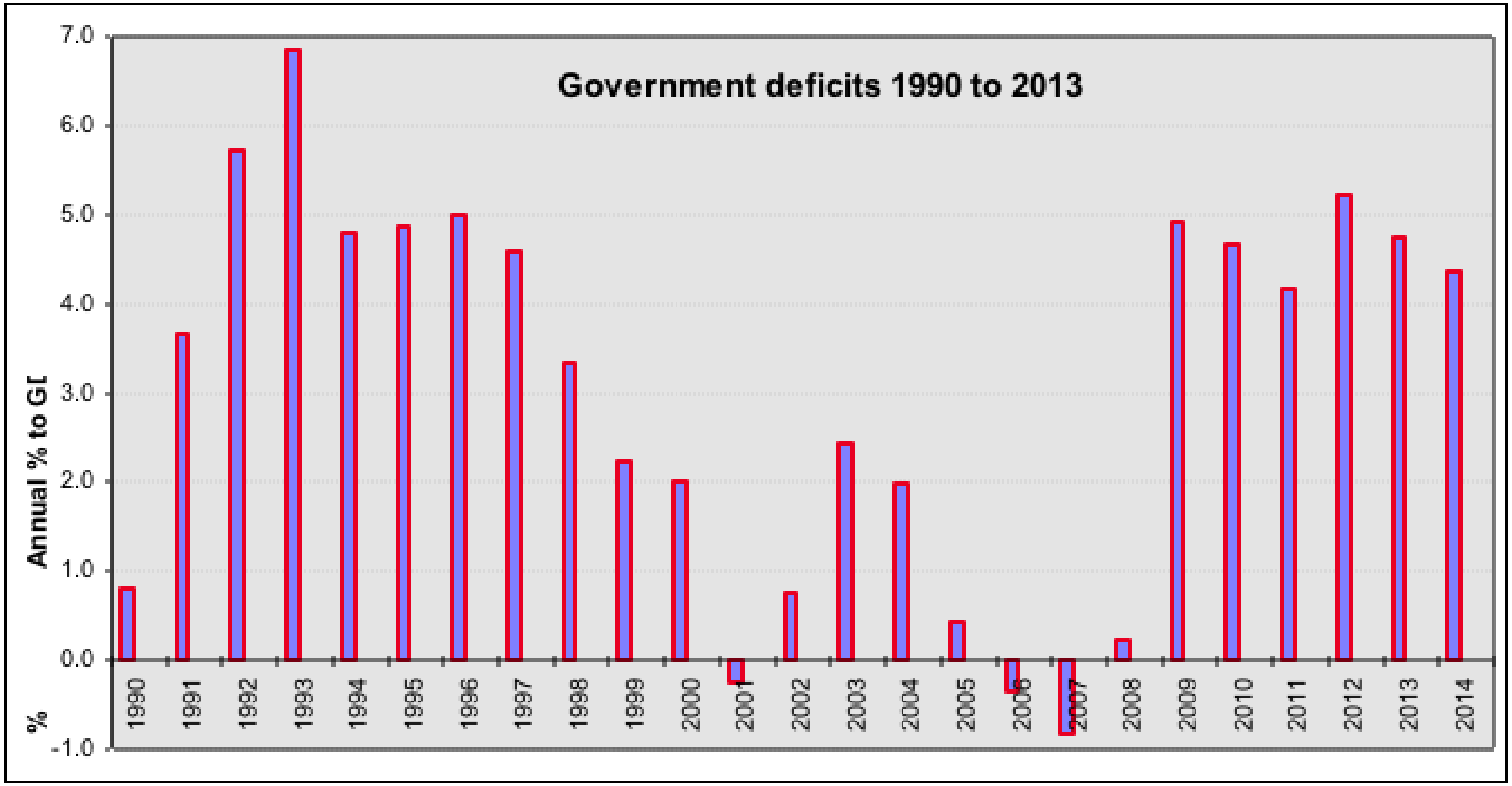
GOVERNMENT DEFICITS



Data source: SA Reserve Bank

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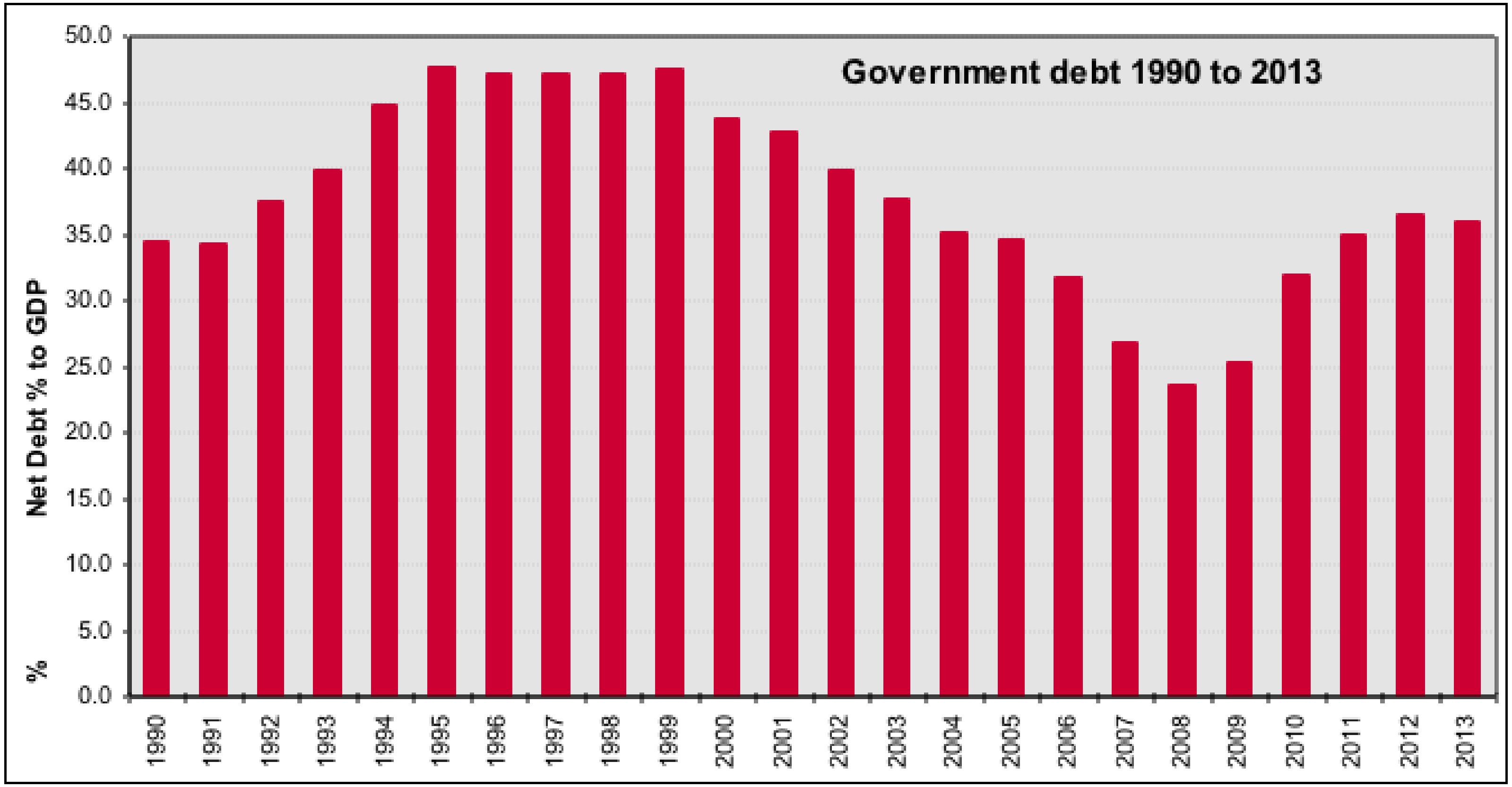
GOVERNMENT DEBT TO GDP



Data source: SA Reserve Bank

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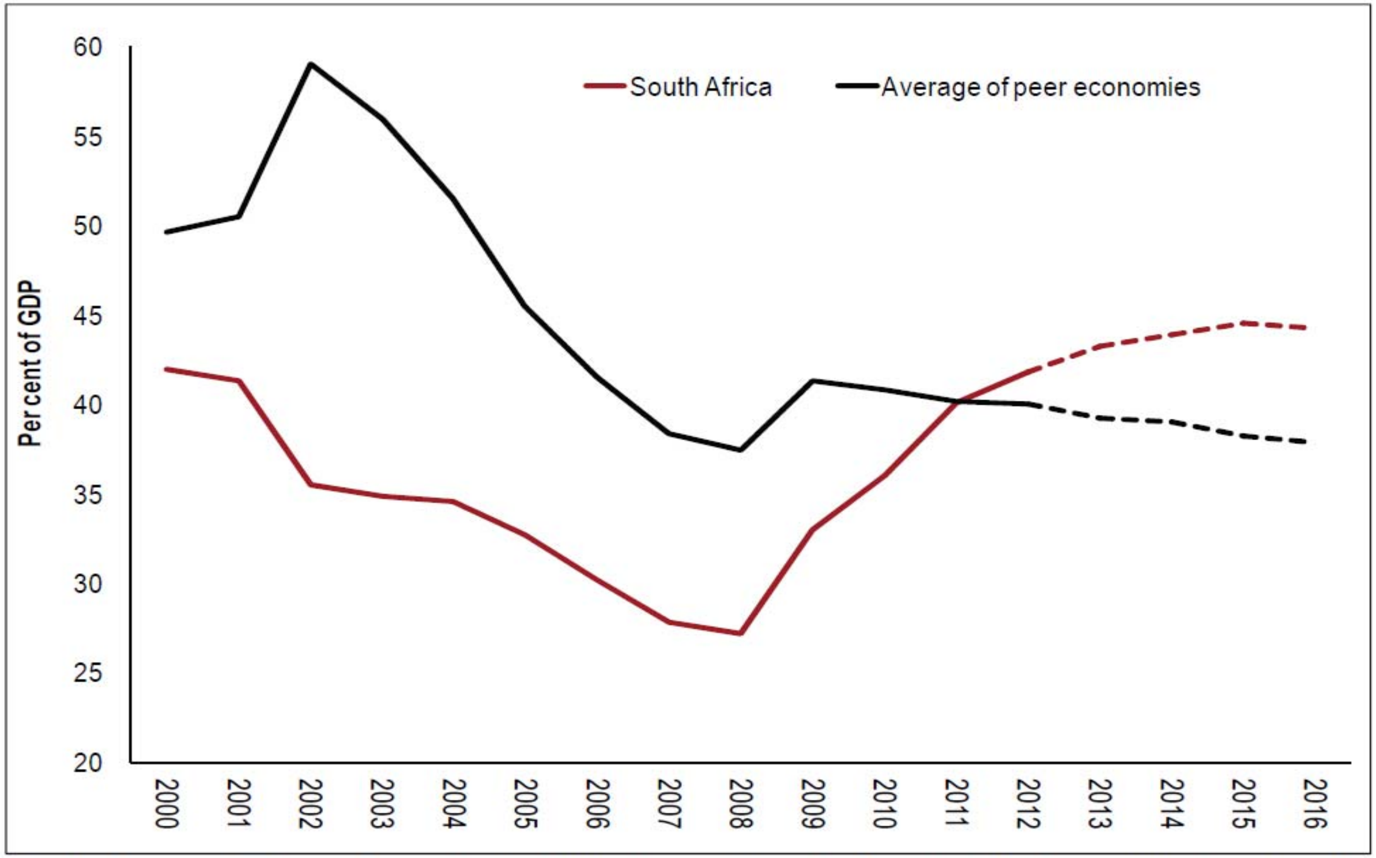
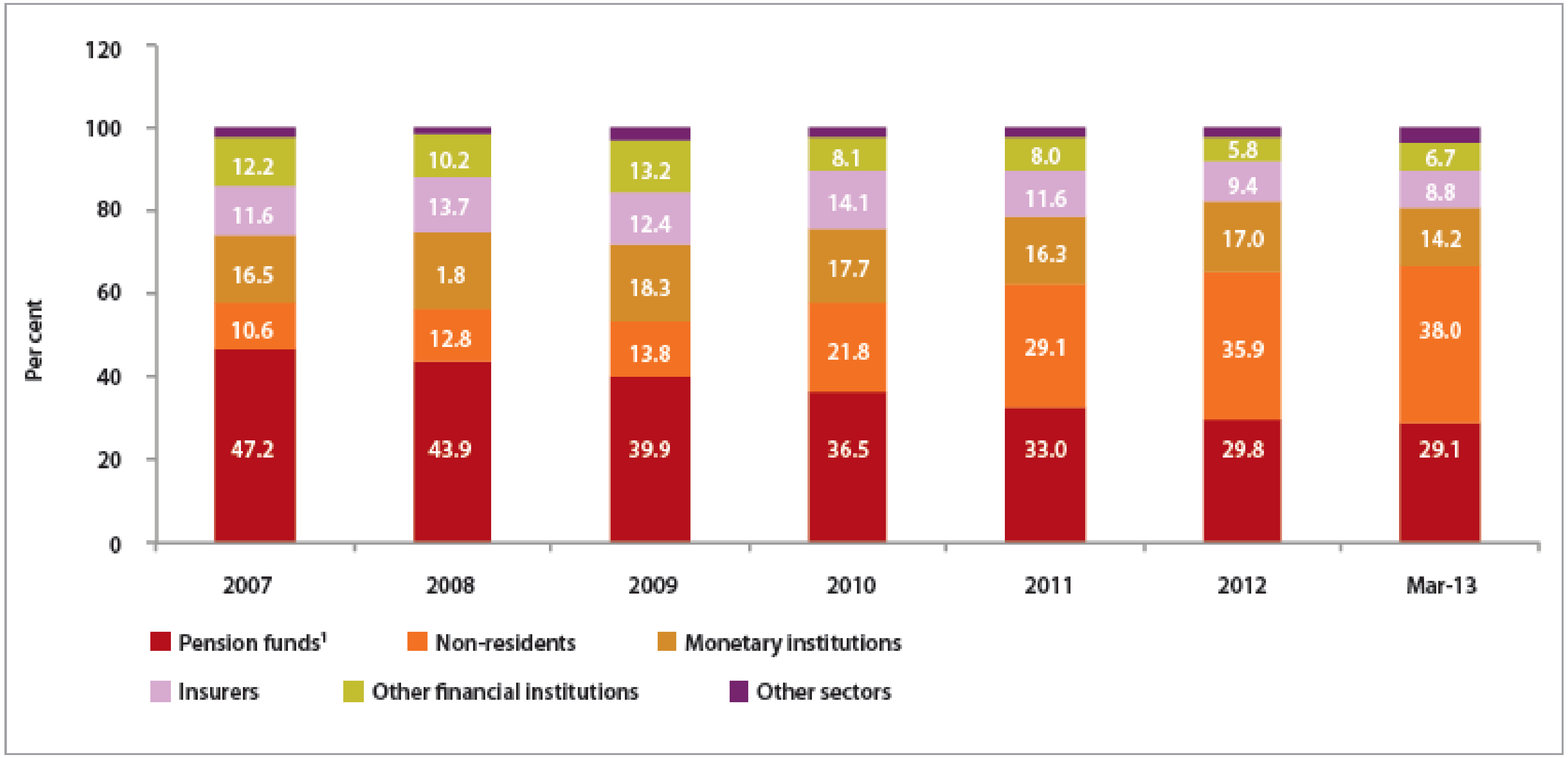
Figure 3.3 South Africa's gross debt-to-GDP ratio compared with peer economies,[1] 2000 – 2016



1. Average of Argentina, Brazil, Bulgaria, Chile, Colombia, India, Indonesia, Kenya, Latvia, Lithuania, Malaysia, Mexico, Morocco, Peru, Poland, Russia, Thailand, Turkey and Uruguay

Source: International Monetary Fund, National Treasury; South African data is for fiscal years

Holders Of Domestic Bonds



[1] Private self-administered funds and official pension funds

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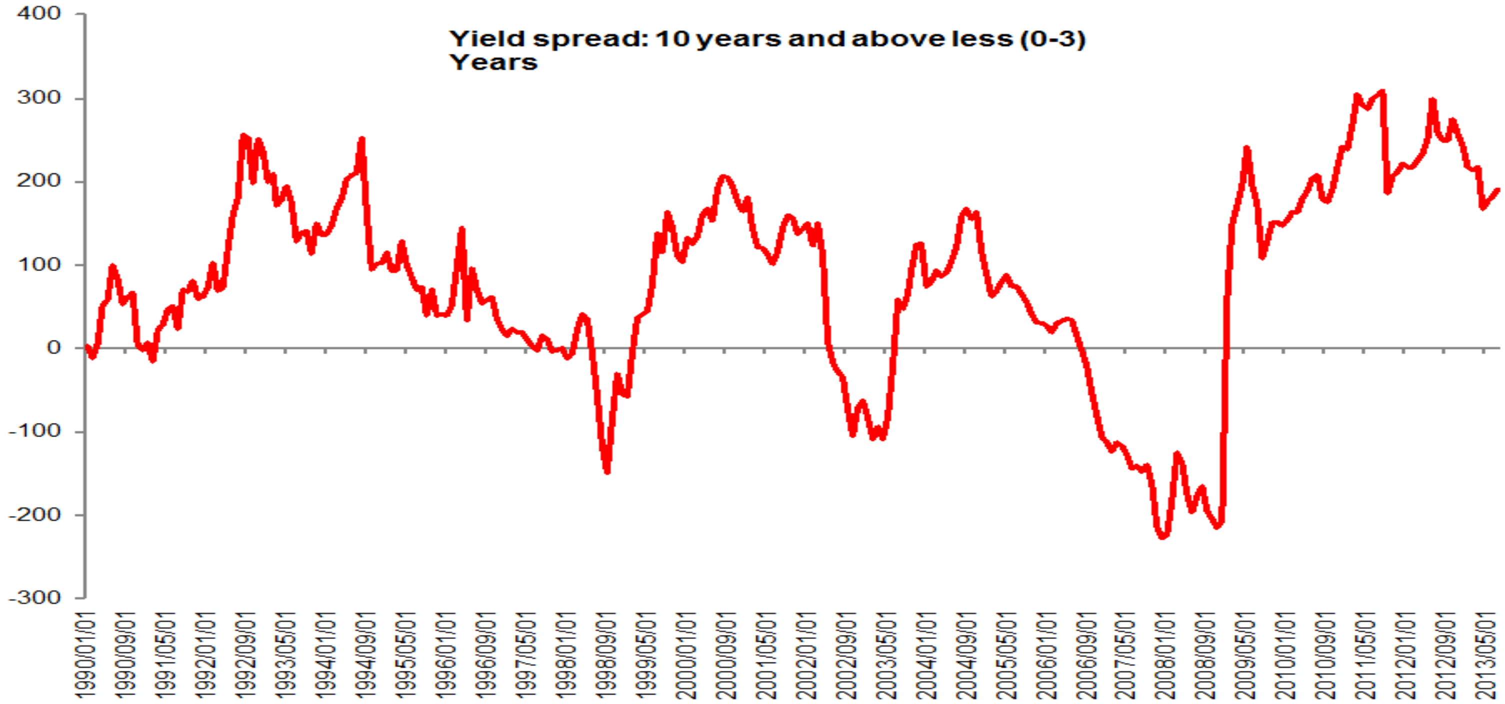
YIELD SPREAD ON BONDS LONG VS SHORT



Source: SARB

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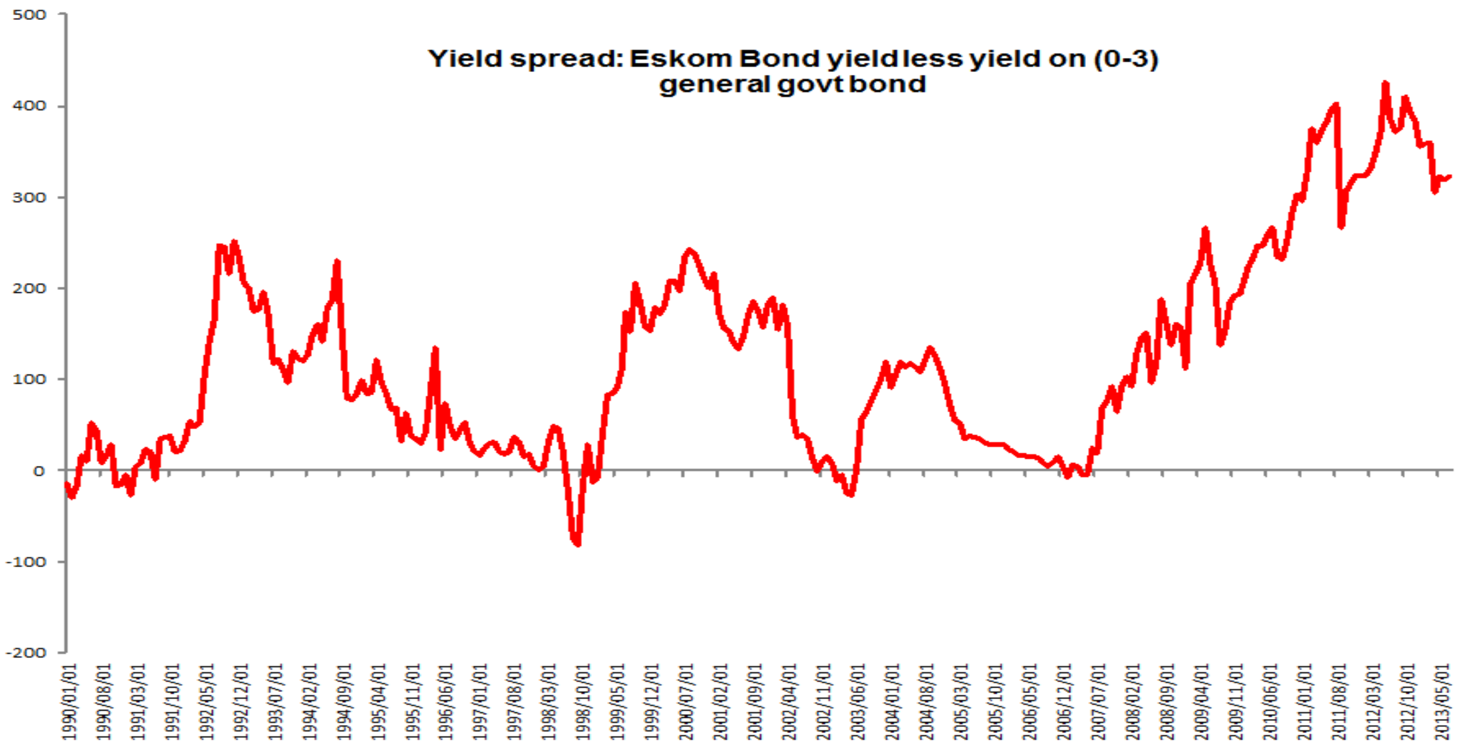
YIELD SPREAD ON ESKOM VS GOVERNMENT



Source: SARB

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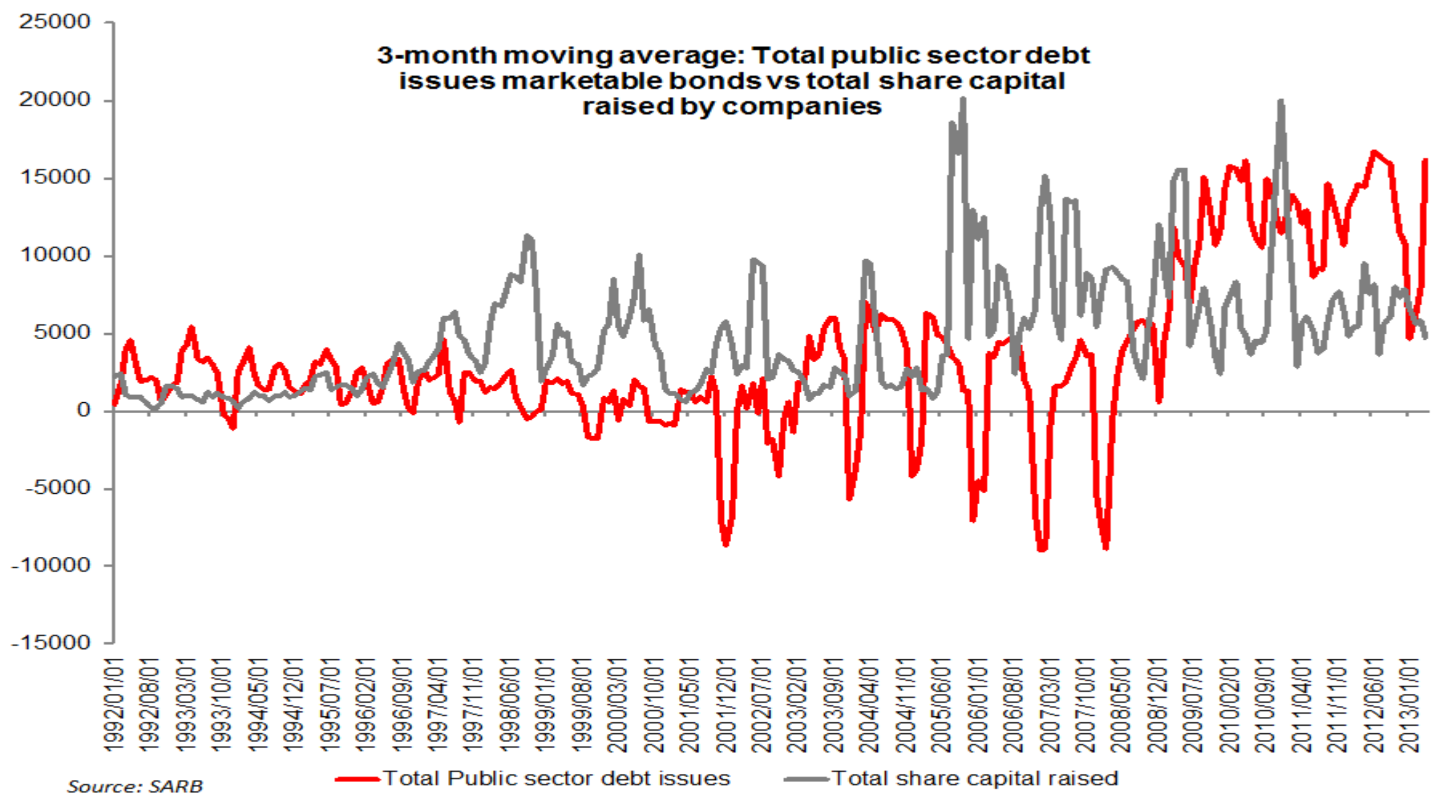
PUBLIC VS PRIVATE NEW CAPITAL



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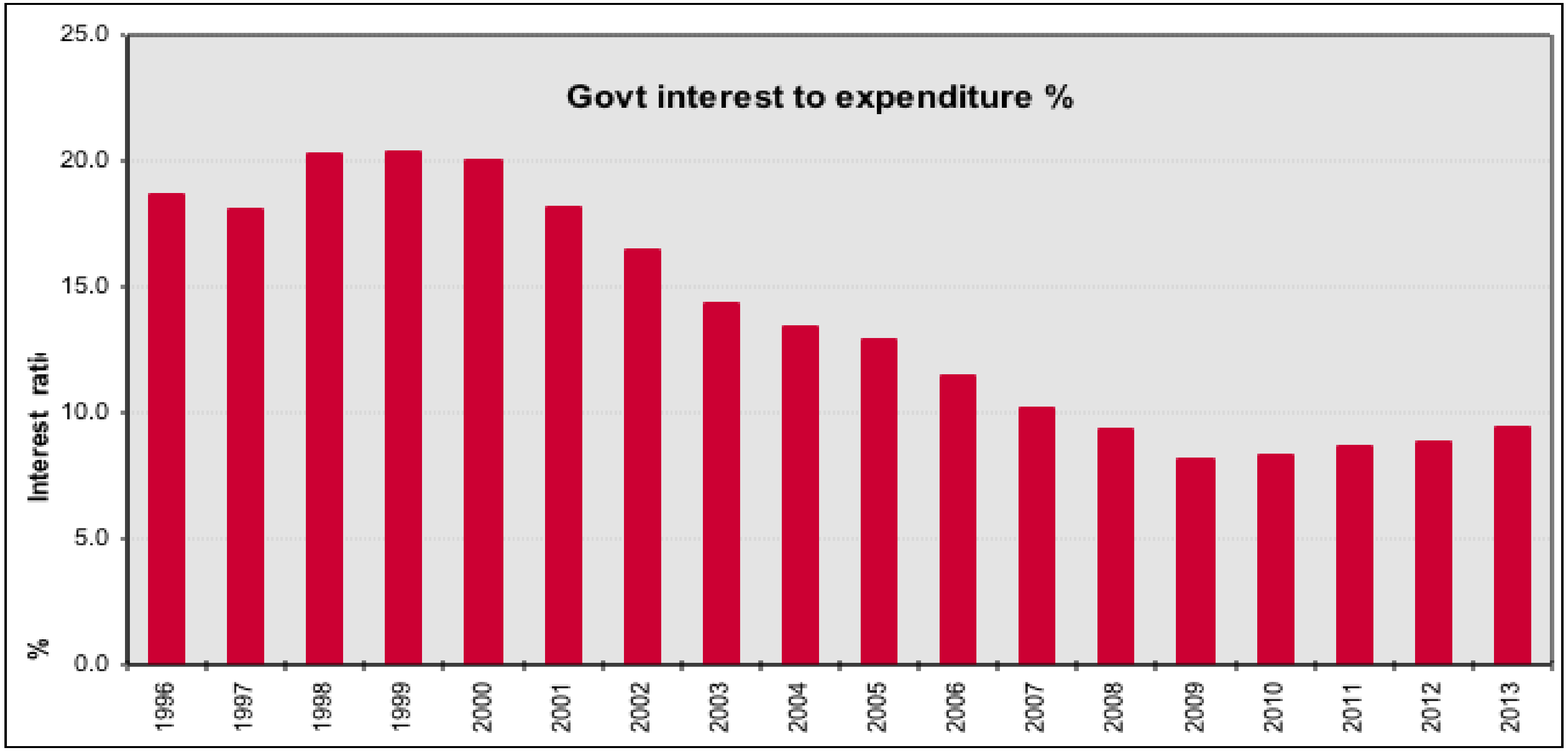
GOVERNMENT INTEREST (%) TO EXPENDITURE



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EMERGING 2014 MTBPS ISSUES

- Dangers:
  - Foreign debt has expanded 8.6 fold since 1997
  - Domestic bond market dominated by government bonds
  - Yield spread easily raised through risk perceptions
  - Interest burden could constrain NDP programs
- Caveats and possibilities:
  - Discipline on non-capital spending
  - Attention to reducing risks and perceptions
  - Greater use of PPP approach for investment

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FISCAL FRAMEWORK IMPLICATIONS OF JULY GOVT FINANCE STATISTICS

- July government finance statistics reveal a fairly substantial decline in the growth of government revenue and conversely, an increase in the growth of government expenditure. The result is a substantial widening of the fiscal deficit for the month compared with the same month last year
- In part due to the fall off in government revenue growth in July, cumulative growth in government revenue for the first four months of the 2014/15 fiscal year now comes in at just 6.4%, well short of the budgeted growth rate for the full fiscal year, of 8.8%.
- In contrast, the undershoot of cumulative growth in government expenditure compared with budget, is much smaller. As a result, if one extrapolates these growth rates to a full fiscal year, one ends up with a fiscal deficit for the whole of 2014/15, of -5.5% of GDP, substantially greater than the official budget deficit, of -4.0% of GDP
- Ironically, the shortfall in revenue growth is being driven more by a deterioration in company tax receipts rather than by a major reduction in indirect taxation, especially VAT, associated with lower than expected economic growth
- The combination of these factors presents a fairly toxic environment for the medium term economic outlook and a possibly disturbing one for interest rate prospects and the Rand.
  - Likely to sustain anxiety of further downgrades in the country's credit rating
  - Also exerts even more pressure on government to stand its ground in restricting growth in public service remuneration in its wage negotiations currently underway with public sector unions.

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MTBPS Options

- Fiscal adjustment: revenue/expenditure based—effects on output, consumption, investment, trade and financial markets, and debt;
  - Simple cost-cutting may be effective in achieving deficit reduction targets but does not encourage longer-run fiscal stability or allow for reforms that will generate more value for money spent
  - Avoid across-the-board cuts or expenditure ceilings. Such tools treat valuable, efficiently run programmes and outdated and poorly managed programmes in the same way
- Avoid setting targets for size of public debt

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4. Division of Revenue, Adjustment And Other Related Issues

Expenditure Assignment and Allocation of Resources

- According to the MBAPRMA, the MTBPS must contain a proposed **division of revenue** between spheres and within sphere
- The disparity between spheres of governments' responsibilities and fiscal capacities give rise to fiscal imbalances
  - Provincial own revenue amounts to 4% of total provincial income while for local government, own revenue 56% of total income
- To address the fiscal imbalance, s214 (1) of Constitution calls for an Act of Parliament to provide for:
  a. State debt and other national obligations – *top slice*
  b. Equitable division of revenue raised nationally among the national, provincial and local sphere of government – *vertical division of revenue*
  c. The determination of each provinces' equitable share of the provincial share of that revenue – *Horizontal division, provincial equitable share determined in terms of formula*
  d. Any other allocations to provinces or local government from national government's share and any conditions on which those allocations may be made –*conditional grants*

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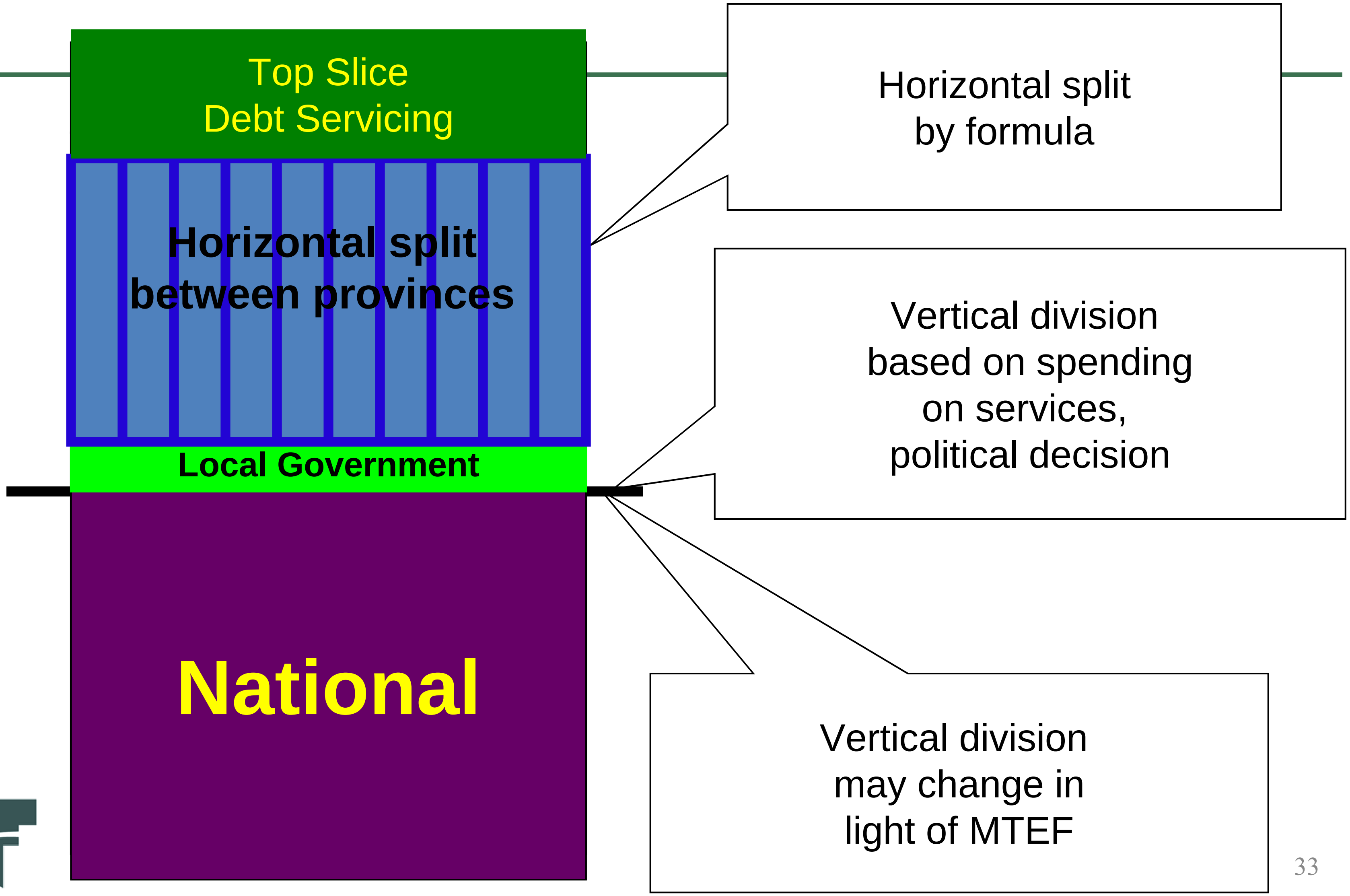
VERTICAL DIVISION OF REVENUE



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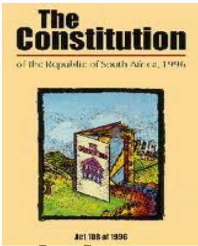
PROVINCIAL EQUITABLE SHARE AND LOCAL EQUITABLE SHARE

- PES and LES = transfer mechanisms that distribute funds among provinces and municipalities
- 

Underpinned by the constitution
- Initiated in 1998
- Components based and population driven
- Both formulae regularly undergo reviews

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PROVINCIAL EQUITABLE SHARE

- Overall provincial equitable share allocation (*i.e. vertical share*) determined in terms of the national budget process
- Formula used to determine equitable share allocations to each province (*i.e. horizontal share*)
  - Formula has six components
  - Reviewed in 2004 when social grant migrated to national government
  - Most recent review in 2010 involved introduction of a new health component (uses patient load from clinics and hospitals (25%) and a risk adjusted index that is a health risk profile of the population (75%) [Old component weighted each person without medical aid as 4 and 1 for each person with medical aid]
- PES is only indicative and allows provinces to prioritise – therefore budgeting decisions and expenditure controls reside in provinces

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LES Formula Structure

$$LGES = BS + (I + CS) \times RA \pm C$$

Where:

- LGES is the local government equitable share
- BS is the basic services component
- I is the institutional component
- CS is the community services component
- RA is the revenue adjustment factor
- C is the correction and stabilisation factor

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SUMMARY OF THE LES FORMULA STRUCTURE

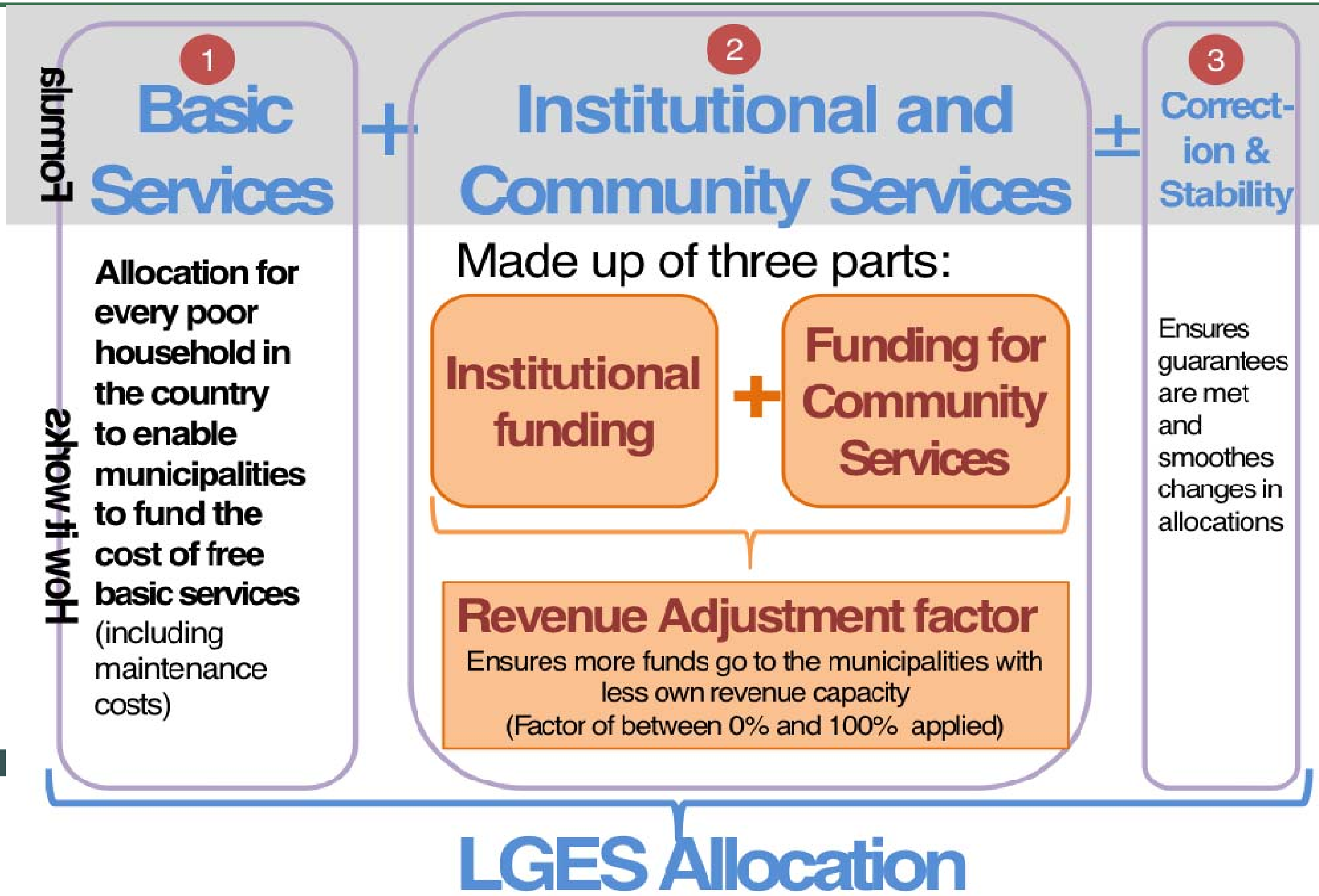

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Table 7.1 Division of nationally raised revenue, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Outcome		Revised estimate		Medium-term estimates	
Division of available funds							
National departments	356 027	382 712	412 706	449 251	489 424	522 257	552 983
of which:							
Indirect transfers to provinces	–	*76*	*860*	*2 693*	*5 413*	*5 044*	*4 127*
Indirect transfers to local government	*2 939*	*2 770*	*4 956*	*5 697*	*7 726*	*9 467*	*10 221*
Provinces	322 822	362 488	388 238	414 932	444 423	477 639	508 254
Equitable share	265 139	291 736	313 016	338 937	362 468	387 967	412 039
Conditional grants	57 682	70 753	75 222	75 995	81 955	89 672	96 215
Local government	60 904	68 251	76 430	83 670	90 815	100 047	105 187
Equitable share	30 541	33 173	37 139	39 789	44 490	50 208	52 869
Conditional grants	22 821	26 505	30 251	34 268	36 135	39 181	41 094
General fuel levy sharing with metropolitan municipalities	7 542	8 573	9 040	9 613	10 190	10 659	11 224
Non-interest allocations	739 752	813 451	877 374	947 853	1 024 662	1 099 943	1 166 424
Percentage increase	*7.2%*	*10.0%*	*7.9%*	*8.0%*	*8.1%*	*7.3%*	*6.0%*
Debt-service costs	66 227	76 460	88 121	101 256	114 901	126 647	139 201
Contingency reserve	–	–	–	–	3 000	6 000	18 000
Main budget expenditure	805 979	889 911	965 496	1 049 109	1 142 562	1 232 590	1 323 624
Percentage increase	*7.9%*	*10.4%*	*8.5%*	*8.7%*	*8.9%*	*7.9%*	*7.4%*
Percentage shares							
National departments	*48.1%*	*47.0%*	*47.0%*	*47.4%*	*47.8%*	*47.5%*	*47.4%*
Provinces	*43.6%*	*44.6%*	*44.2%*	*43.8%*	*43.4%*	*43.4%*	*43.6%*
Local government	*8.2%*	*8.4%*	*8.7%*	*8.8%*	*8.9%*	*9.1%*	*9.0%*

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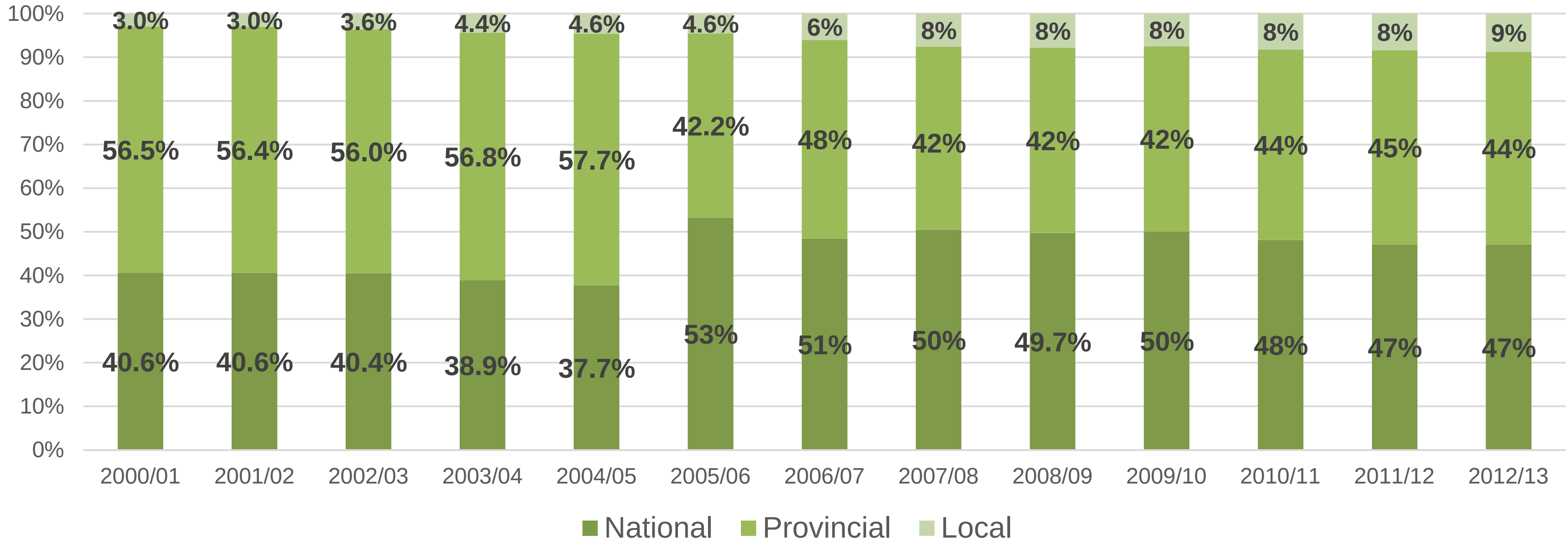
Source: Budget Review (2014)

Evolution of Vertical Division of Revenue



- Provinces accounted for the largest share of national revenue until 2004, when social security function was transferred to national government
- Since then national share gradually declined over time due to increased expenditure responsibilities at subnational level and also lower fiscal capacity
- Local government receives the lowest share because of its ability to raise own revenue through municipal taxes and utility services

Intergovernmental Fiscal Transfers

Schedule 4

Allocations to supplement provincial and local funding

Comprehensive Agriculture Support Grant (Agriculture)

Integrated City Development Grant (Cities) (National Treasury)

Schedule 5

Specific purpose allocations to provinces and municipalities

National School Nutrition Programme (Basic Education)

Human Settlements Development Grant (Human Settlements)

Schedule 6

Allocations-in-kind to designated provincial and local specific programmes

Regional Bulk Infrastructure Grant (Water Affairs)

Municipal Infrastructure Grant (COGTA)

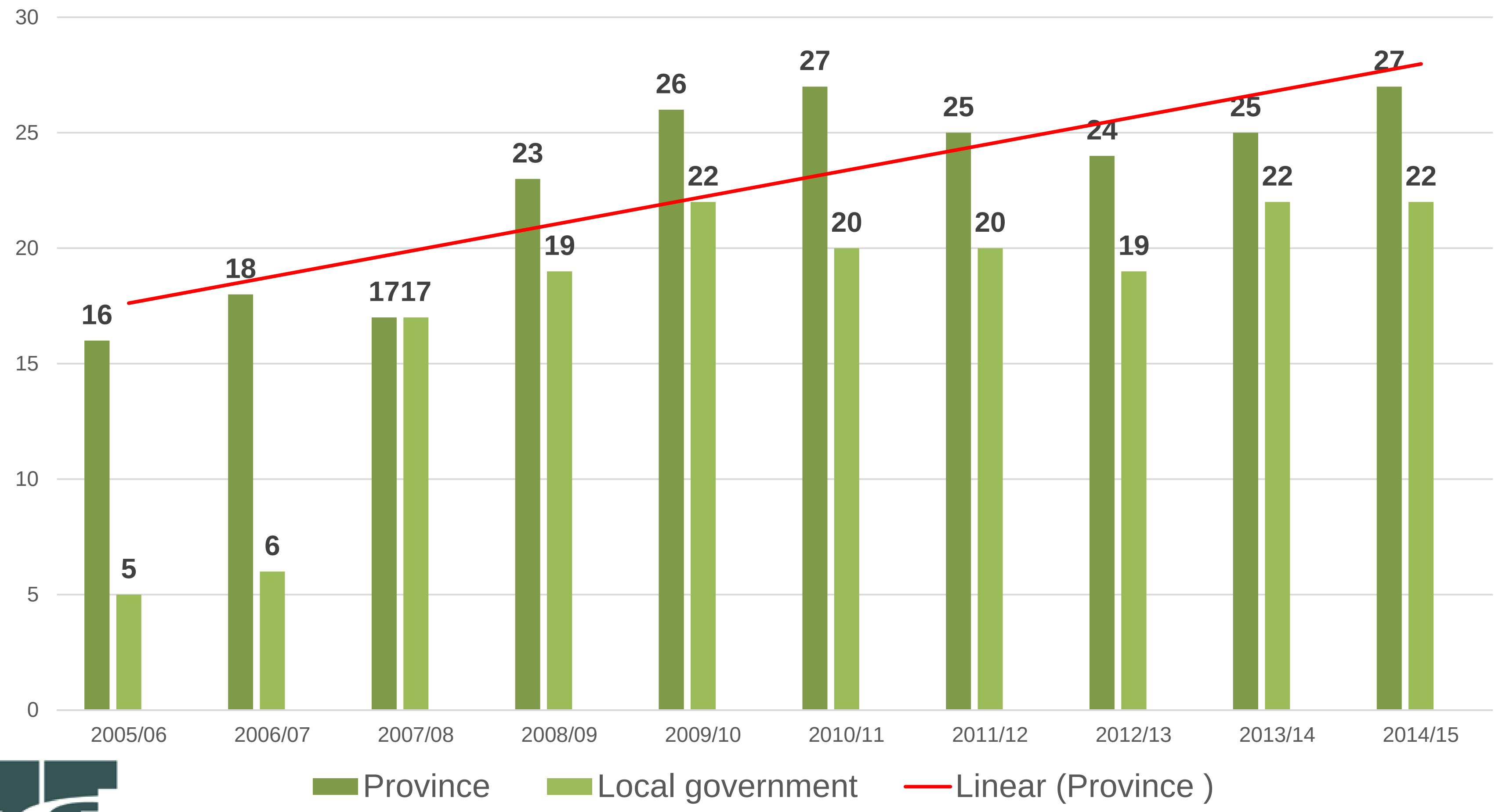
Schedule 7

Allocations to provinces and municipalities for immediate disaster response

Provincial Disaster Grant (COGTA)

Municipal Disaster Grant (COGTA)

PROVINCIAL AND LOCAL CONDITIONAL GRANTS (2005/6 – 2014/15)



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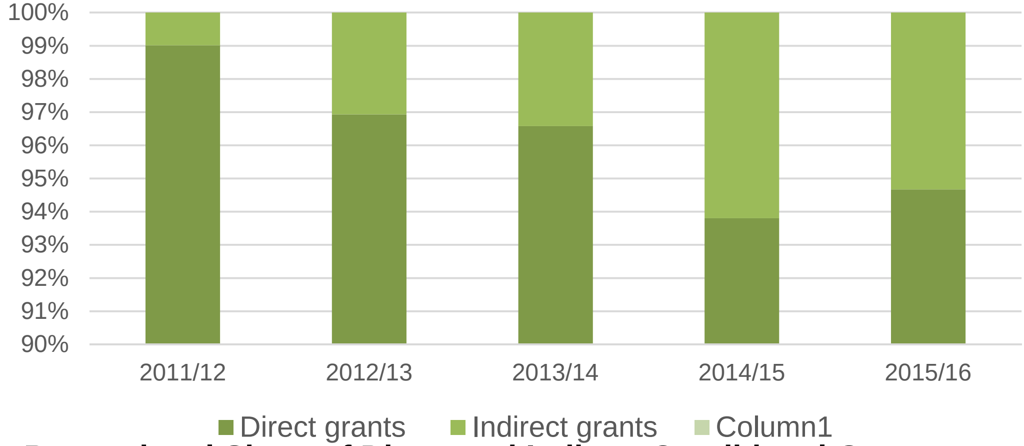
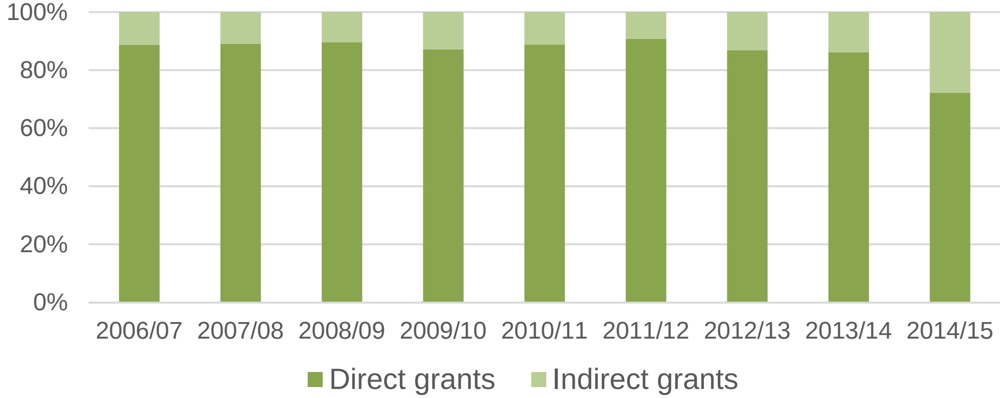
Direct and Indirect grants

- There is a growing increase in the allocation of indirect conditional grants to provinces and municipalities
- Indirect grants justified by national government on the basis that subnational government are unable to spend direct allocations and thereby compromise delivery
- Indirect grants considered by SNG to erode their spending discretion

Proportional Share of Direct and Indirect Conditional Grants (provinces)



Proportional Share of Direct and Indirect Conditional Grants (municipalities)



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Appropriation Adjustments and Mid-Year Estimates

- According to the MBAPRMA, the MTBPS must contain adjustments to the conditional grant allocations to national and provincial government and review spending by national and provincial government during the first half of the fiscal year
- Conditional Grant Adjustments
  - Consistent with historical practise, likely to see reductions in underperforming grants in MTBPS
    - While principle of ability to spend is sound, must be measured against achieving grant objectives and national priorities
  - Critical to consider the performance of direct vs. indirect grants in MTBPS
    - In 2013, challenges with coordinating spending and delivery plans hampered spending on indirect grants (E.g. School Infrastructure backlog grant, NHI grant, etc.)
- Mid-year Estimates
  - Likely to see uneven pattern of spending by national and provincial government
  - Transfer spending to NGOs traditionally slow and key target for reductions in appropriation adjustments
  - May see additional funds allocated to deal with improvement in conditions of service
  - Wage bill a major cost driver and need to consider in MTBPS whether government is adequately managing wage bill escalation

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Additional Key Issues to Consider

- Commission would like to highlight two additional issues that should be considered when evaluating the MTBPS and plans for the new Budget:
  - Unfunded mandates
    - Narrowly defined, unfunded mandates refer to the transfer of new functions, not constitutionally assigned, to provinces/municipalities
    - Section 9 of Municipal Systems Act requires FFC to be consulted when an assignment of a power/function is being assigned to municipalities
    - For functions shifts to be legally binding, Section 3(2A) of FFC Act requires that the recommendations/advice of the Commission be sought regarding financial and fiscal implications of shifting/reassigning a function
  - Financial and fiscal implications of municipal demarcations
    - FFC research has found that municipal demarcations result in unintended economic consequences that give rise to significant costs for a municipality. The Commission has therefore recommended as part of its 2015/16 Annual Submission, that the financial and fiscal implications of boundary redeterminations be established prior to any demarcation decision being taken. In addition the Commission is calling for the implementation of a transitional grant to the amalgamated municipality to assist with the restructuring process.

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5. FFC Recommendations And Outline of Submission on 2014 MTBPS

Parliamentary Budget Oversight and FFC's Role in Budget Process

- FFC's primary outputs/reports in terms of Section 221 of the Constitution and Money Bills Procedures and Related Matters Act (MBPRMA):
  - Annual Submission on the Division of Revenue (DoR)
    - Submitted to Parliament 10 months prior to tabling of the DoR by the Minister
    - Contains recommendations/proposals for the following fiscal year and medium terms expenditure framework (MTEF)
  - Submission on the Medium Term Budget Policy Statement (MTBPS)
    - Contains the FFC's response to the MTBPS and adjustments to the division of revenue
  - Submission on the DoR Bill
    - Submitted to Parliament in February and outlines the FFC's response to DoR Bill and relevant annexures

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FFC's Role in the Budget Process [cont.]

- Submission on the Fiscal Framework and Revenue Proposals
  - Contains FFC's response to the fiscal framework and revenue proposals contained in the budget tabled by the Minister
- Submission on the Appropriation Bill
  - Submission made to the Standing/Select Committee on Appropriations
- Any other special reports made at own initiative or request by organs of state

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HOW FFC INFLUENCES POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

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PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

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PARLIAMENT'S ENGAGEMENT WITH RECOMMENDATIONS

- The impact of the intergovernmental fiscal system cuts across many different sectors and spheres.
- In the past, FFC recommendations often responded to in an ad-hoc manner, especially with respect to their implementation
- Budget Review and Recommendations Reports could be important in creating a cross department focus on sector and inclusive growth etc
- The Commission recommendations could be mainstreamed into Parliamentary processes so that Parliament can actively monitor the extent to which the executive implements the proposed recommendations
  - One such approach could be making FFC recommendations a standing item in the Budget Review and Recommendations Report and for the relevant sector department to respond to Parliament on how the relevant recommendations have been responded to

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HOW CAN FFC WORK BE USED TO SUPPORT PARLIAMENT?

- Debunking myths and bringing new ideas
- Increasing visibility and accountability
- Bringing provincial/local government fiscal issues to a par with macro-economic fiscal framework monitoring
- Improving the diagnosis and identifying the policies that work
- Bringing transversal themes
  - E.g. impact on vulnerable groups (children, women, disabled)
  - Job creation

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DEBUNKING MYTHS

What we may think (largely based on theory)…	(Empirical) research shows that
"Inequality is inevitable or even good for growth"	*"Too high inequalities may undermine growth"*
"Focus on growth and jobs…"	*"There is no trickle down…"*
"Generous grants lead to increased teen pregnancy and discourage people from working" (making work pay)	*"higher coverage and adequacy of benefits are associated with higher returns to growth, employment… if well designed and linked to activation"*
"More targeted benefits means more efficient spending…"	*"Efficiency of spending depends on how you spend it and on what" (social investment)*

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New Ideas: Balancing Fiscal Sustainability with Socio-Economic Impact

I. Macroeconomic and Fiscal Frameworks for Inclusive Growth

1. Macroeconomic Perspectives and Fiscal Frameworks
2. Public Debt Challenges
3. Social Programmes and the Need for Reform

II. Improving Investments in Education and Health

4. Equitable Resourcing of Schools
5. Adequacy and Efficiency in Primary Health Care Financing
6. Impact of Fiscal Expenditure on Food Security

III. Investment in Infrastructure

7. Improving Financing of Municipal Capital
8. Improving Public Transport
9. Impact of Electricity Prices on Municipalities
10. Better Human Settlements through Improved Panning and Funding

IV. Demarcations and Beyond

11. Impact of Demarcations on Municipal Finance

Balancing Fiscal Sustainability With Socio Economic Impact

- Key recommendations
  - Reforms of public service delivery are required to increase economic growth and promote the balance
  - Reforms are required to improve access, quality and efficiency of delivery programs
  - Delivery programs must be integrated across different spheres and levels of government targeting the vulnerable

Balancing Fiscal Sustainability With Socio Economic Impact

- Key recommendations
  - Ensure greater impact and efficiency of public spending
  - Encourage participation in the economy and improve equity
  - Investment in physical infrastructure and innovation
  - Avoid setting blanket expenditure ceiling to control debt

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Balancing Fiscal Sustainability With Socio Economic Impact

- Key recommendations
  - Distribute resources to schools more equitably to improve outcomes
  - Improve allocations to Primary Health Care
  - Improve the financing of municipal capital investments
  - Implement a transport subsidy framework that incorporates social welfare
  - Introduce a transitional demarcation grant to deal with the fiscal effects of municipal boundary changes

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FFC Proposed Submission on 2014 MTBPS
Outline

- Introduction and Background
- Macroeconomic Outlook and Key Priorities
- Fiscal Framework and Division of Revenue
- Medium Term Spending Priorities
- Allocation to Conditional Grants
  - Provincial Government Conditional Grants
  - Local Government Conditional Grants
- Implications for the provincial/LG fiscal framework and intergovernmental fiscal relations
- Division of Revenue Amendment Bill
- Adjustments Appropriation Bill
- Review of Actual Spending and Adjustment Estimates
- Conclusion

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FFC's Website: www.ffc.co.za