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COMMISSION

SUBMISSION ON THE 2015 DIVISION OF REVENUE BILL

14 April 2015

For an Equitable Sharing of National Revenue

SUBMISSION OUTLINE

- Background
  - Context
  - Presentation highlights
- General and specific comments on the 2015 division of revenue bill
- National fiscal framework
- Provincial fiscal framework and medium term priorities
- LG fiscal framework and adjustments to conditional grants
- Government responses to Commission recommendations
- Government responses to SC on Appropriations recommendations
- Other issues
- Concluding remarks

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THE CONTEXT

- This submission is made in terms of section 214 of the Constitution and section 35 of IGFR Act
- Commission welcomes the general thrust of the Bill in maintaining fiscal consolidation
  - Consolidation is necessary to achieve fiscal sustainability and pro-poor spending
- Commission welcomes the manner in which government has responded to its recommendations made for the 2015/16 division of revenue

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HIGHLIGHTS OF THE SUBMISSION

- The 2015 budget continues with momentum of fiscal consolidation
  – Spending efficiency will enhance capacity to absorb baseline reductions due to reduction in expenditure ceiling
- Local government and social spending has been cushioned against expenditure cuts
  – Budget balancing not directly on the poorest
- Consultation processes with FFC Act should be followed when there is a function shift upward to avoid creating unfunded mandates

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GENERAL AND SPECIFIC COMMENTS ON THE BILL

- Commission welcomes the institutionalisation of Build Environment Performance Plans (BEPPs) as a tool to foster spatial planning and development within Metros
  - BEPP requirements should be extended to other municipalities and spheres of government
- Provincial roads infrastructure grant to be subjected to the new two year lead-planning and performance based allocation framework
  - Other departments are advised to follow such good practice planning with their grants

PES AND FUNCTION SHIFTS

- Commission notes that PES baseline continues to be affected by a series of functions and funding shifts
  - FET function shift experienced initial delays in the target implementation date of the function shift because of budget disputes
  - Commission welcomes the process and consultation that subsequently took place and endorses the FET shift
  - The national port health function was shifted through a legislative amendment (National Health Act)
    - » Given that this is a function shift, these types of legislative changes need to be done alongside the requirements of the FFC Act with respect to function shifts to avoid having problems of unfunded mandates arising

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NATIONAL FISCAL FRAMEWORK

Division of Nationally Raised Revenue, 2012/13-2017/18

	Outcome		Revised Estimate	Medium Term Estimates		
R'million	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
National Departments	420 015	453 171	491 368	522 992	553 778	586 087
Provinces	380 929	410 572	439 661	468 159	496 259	526 382
Local Government	76 430	82 836	89 076	99 753	103 936	110 017
Non-interest Allocations	**877 374**	**946 579**	**1 020 105**	**1 090 904**	**1 153 973**	**1 222 486**
Real Year on Year Growth						
National Departments		4.4%	4.7%	3.1%	2.9%	3.0%
Provinces		4.3%	3.4%	3.2%	3.0%	3.2%
Local Government		4.8%	3.9%	8.5%	1.2%	3.0%
Non-interest Allocations		**4.4%**	**4.1%**	**3.6%**	**2.8%**	**3.1%**

- The Provincial share of national revenue decreases from 43.9 to 42.9 due to functions shifts
  - Over the 2015 MTEF period, revenue growth (6.8%) is projected to outpace expenditure is growth (4.8%)

NATIONAL FISCAL FRAMEWORK [CONT.]

R'million	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Real Annual Average Growth 2012/13-2017/18
National Departments	420 015	453 171	491 368	522 992	553 778	586 087	3.60%
of which:							
Indirect transfers to provinces	2 315	2 693	4 116	3 458	3 596	3 967	8.0%
Indirect transfers to local government	4 548	5 523	8 536	10 395	10 634	10 916	15.5%

- Indirect transfers to subnational governments show strong real growth over 2015 MTEF period, particularly in the case of local government
- Strong growth in Indirect transfers are welcome if the objective is to expedite service delivery
- Indirect transfers must be accompanied by necessary support measures to enhance delivery capacity of local government and provinces

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PROVINCIAL FISCAL FRAMEWORK

- The 2015/16 provincial fiscal framework [inclusive of conditional grants] is revised downwards by R1.4 billion over the 2015 MTEF in comparison to 2014 MTBPS
- Despite downward revisions both PES and conditional grants expected to grow at above the rate of inflation
  - Commission welcomes approach taken of protecting key service delivery areas while cutting on inefficient and non-core spending areas

	2015/16	2016/17	2017/18
PES	1.3%	0.5%	0.4%
Conditional Grants	2.2%	1.0%	1.7%

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PROVINCIAL FISCAL FRAMEWORK [CONT.]

- PES formula is updated with 2014 midyear population estimates, October Household Survey and health sector data for health component of formula
  – Commission continues to support regular updating of formula. This ensures reliability and credibility of PES mechanism
- The phasing-in of provincial allocations as a result of census 2011 data extended for another year until 2016/17
  - Commission supports this as it provides stability and does not put at risk service delivery considerations
  - Commission would like to reiterate the need for national government to provide provinces with the necessary support as they absorb adjustments and transition to new allocation

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CHANGES TO PROVINCIAL CONDITIONAL GRANTS: HUMAN SETTLEMENTS

- There is a delay with implementation of the Housing Function Shift
- For 2015/16 MTEF, R3.3 billion has been ring-fenced within the HSDG to continue with the upgrading of human settlements in mining towns in six provinces
  - In this regard, the Commission reiterates its recommendation made in its 2014 Submission for the DoR that Government should also consider rental option or a balanced mix as not all people in informal settlements around mining areas prefer housing ownership
- The Commission welcomes downward revision of HSDG by R411.4 million.
  - The department should put in place plans to mitigate against negative effect of this on existing projects

CHANGES TO PROVINCIAL CONDITIONAL GRANTS: HEALTH

- A total of 5 Health Conditional Grants are revised downwards by over R770 million mainly due to repriorisation and underspending over 2015 MTEF
  - Future reprioritisation of this magnitude must be preceded by a thorough expenditure review to determine the extent to which the objectives of the grant are affected
- The Commission notes with concern the rapid phase in of newly established Conditional grants into the PES without an assessment of whether grant objectives have been met or not
  - Human Papilloma Virus component of the National Health Grant grant will be phased into the PES from 2016/17

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EDUCATION

- The Commission welcomes the merger of the Dinaledi Schools Grant and the Technical Secondary Schools Recapitalisation Grant into a new grant – the Maths, Science and Technology Grant
  - This is in line with previous recommendations on streamlining grants with the same purpose
  - The grant is allocated R18 billion over the MTEF.
- The Occupational Specific Dispensation for education sector therapists will be phased into the PES in the 2016/17
  - Commission supports gradual phase in of conditional grant into the PES
  - Systems must be put in to ensure efficient spent of allocated budgets on sector priorities rather than overspending allocated budgets on personnel

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Local Government Baseline Adjustments

- Over the 2015 MTEF, the Local Government will receive 9 percent of total nationally raised revenues or R313.7 billion in both conditional and non-conditional grants
- The Commission welcomes cushioning of the local equitable share (LES) and infrastructure grants allocations from cuts
  - Allocations continue to grow in real terms for the 2015 financial year
  - Significant growth in water, sanitation and electricity grants, in line with the 'Back to Basics' plan

LES AND LOCAL CONDITIONAL GRANTS

LOCAL EQUITABLE SHARE

- The LES allocations continue to experience positive real growth into the MTEF (5.6 percent)
- Revised LES continues to proportionately allocate more to rural municipalities while metros and urban municipalities raise the majority of own revenues

LOCAL GOVERNMENT CONDITIONAL GRANTS

- With the exception of infrastructure grants, Local Government conditional grants experience baseline reductions of between 0.9 and 6 percent in 2015/16.
- Improvements in spending efficiency will reduce the impact of reductions on service delivery

RESPONSES TO COMMISSION RECOMMENDATIONS

- Government responded to Commission recommendations that were tabled to Parliament in May 2014
- Submission comprised of 13 Chapters with a total of 32 recommendations
- Commission welcomes the consultation processes and the responses

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Responses to Commission Recommendations (Cont)

- Government agrees with the thrust of the recommendations
- Implementation of recommendations on the introduction of transitional demarcation grant is already underway
  - Government needs to reconsider its proposal to make available the transitional demarcation funding for major re-demarcations only

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VIEWS ON APPROPRIATIONS COMMITTEE RECOMMENDATIONS

- The recommendation to align functional budget groups to MTSF is important
  - Alignment on planning is also critical
- Commission welcomes the recommendation to introduce spending and performance efficiency targets
- On municipal infrastructure maintenance, the Commission is of the view that stringent measures be introduced to enforce standard practices on asset care funding

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Views on Appropriations Committee Recommendations

- Commission agrees with the Committee on the need for spending capacity to precede introduction of conditional grants
  - Conditional grants must be introduced only to address national priorities and spillover effects
- Government has indicated that it agrees with these recommendations so what remains is demonstration of an implementation plan

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Conclusion

- The 2015budget agrees with most aspects in the Commission's submission for 2015/16 DoR
- Efforts to protect infrastructure allocation and improve the system of local conditional transfers are commendable
- The fiscal framework should be reviewed continuously to ensure long term sustainability
- Building state capabilities is a necessary condition for improving spending outcomes and economic growth

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THANK YOU.

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