



INTRODUCTION TO FINANCIAL AND FISCAL COMMISSION AND ITS PREVIOUS RECOMMENDATIONS

10 APRIL 2013

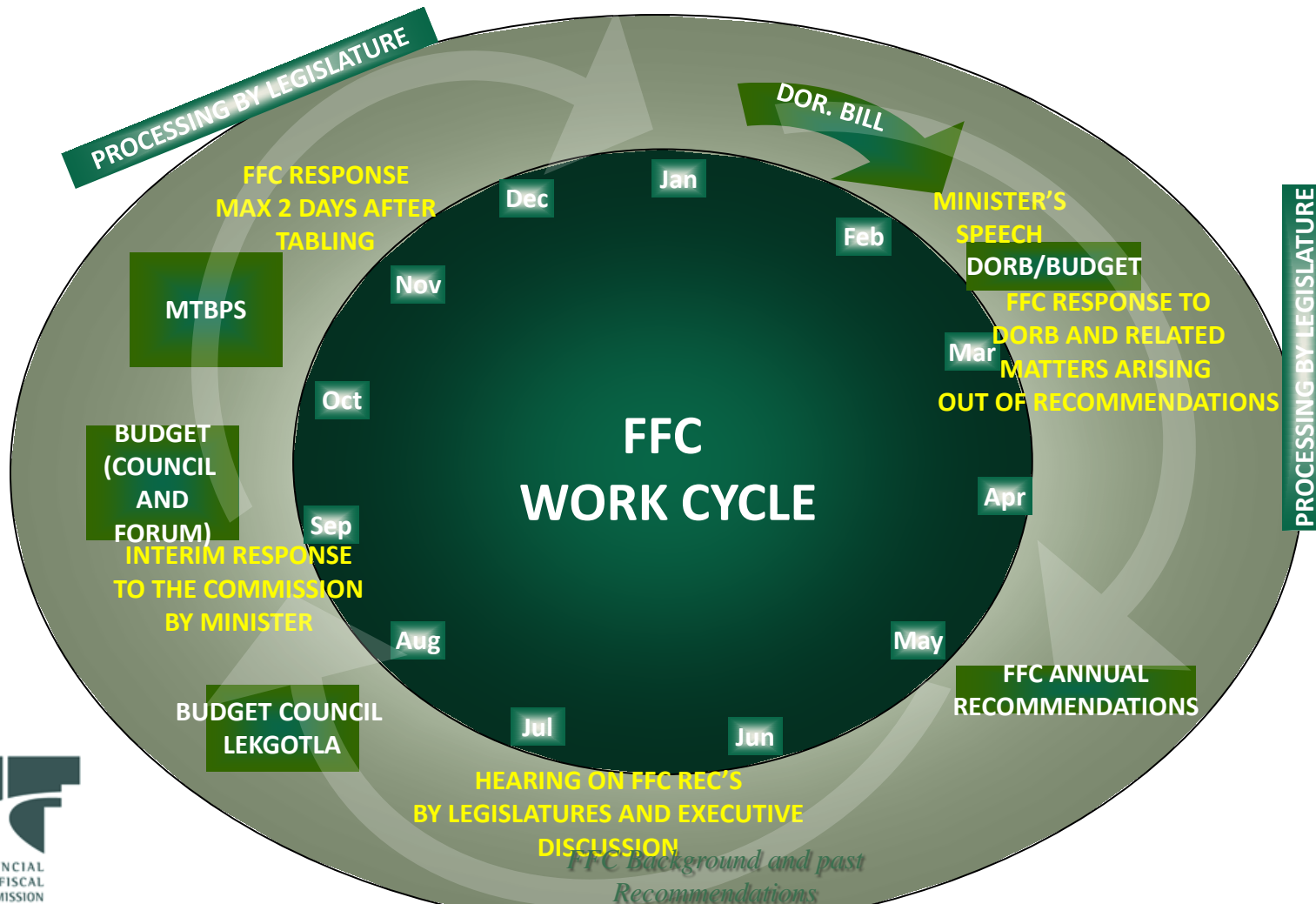
ROLE AND FUNCTION

- Financial and Fiscal Commission (FFC)
 - Permanent statutory body established in terms of S 220 of Constitution
 - FFC operational since 1994
 - Independent and subject only to Constitution and the law
 - Must function in terms of an act of Parliament
- Mandate of Commission
 - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation
- Enabling legislation: S 214 (2), 218(2), 228 (2), 229(5), 230(2) and 230A(2) of the Constitution
 - FFC Act (No 99. of 1997), IGFR Act (No. 97 of 1997), Money Bills Amendment Procedure and Related Matters Act (2009)
 - Provincial Tax Regulation Process Act, Municipal Fiscal Powers and Functions Act, Borrowing Powers of Provincial Government Act, Municipal Finance Management Act, Municipal Systems Act

STRUCTURE OF THE COMMISSION

- In terms of Section 221(1) of the Constitution
 - Chairperson and Deputy Chairperson
 - Seven other members
 - 2 national nominees, 3 provincial nominees and 2 local government nominees
- Currently three vacancies
- All appointed by President in consultation with Premiers and organised local government
- Minister of Finance coordinates the process through Budget Council and Budget Forum

THE FFC WORK PROCESS AND CYCLE



LEGISLATION UNDERPINNING IGFR IN SA

- Constitution
- National Acts of Parliament
 - Intergovernmental Fiscal Relations Act (2005)
 - Borrowing Powers of Provincial Govt Act (1996)
 - Public Finance Management Act (1999)
 - Municipal Finance Management Act (2003)
 - Municipal Systems Act (2000)
 - Municipal Structures Act (2009)
 - Financial and Fiscal Commission Act (1997)
 - Money Bills Amendment Procedure and Related Matters (2009)
- Annual Budget Acts of Parliament
 - Money bills
 - Annual Division of Revenue Act– Explanatory Memorandum and extensive tables
 - National and Provincial Appropriation Act
 - Tax legislation (Taxation and Revenue Laws Amendment Acts)

INSTITUTIONS UNDERPINNING IGFR

- Budget Council
- Budget Forum
- Presidential Coordinating Council
- Cabinet
- Extended Cabinet
- Min-Mecs
- 10x10s

FFC PRIMARY OUTPUTS

- FFC's primary outputs/reports in terms of Section 221 of the Constitution
 - Annual Submission on the DoR
 - Submitted 10 months prior to tabling of the DoR Bill by Minister
 - Contains recommendations/proposals for the following fiscal year and MTEF
 - Submission on the 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 the DoR Bill and relevant annexure
 - Submission on Fiscal Frameworks and Revenue Proposals
 - Submitted to Parliament in March and outlines the FFC's response to the Budget and relevant annexure
 - Annual Report
 - Special reports made at own initiative or request by state organs

COMPREHENSIVE LIST OF FFC'S SUBMISSIONS AND DOCUMENTS

- SUBMISSIONS ON THE DIVISION OF REVENUE BILL
 - 2012/13 Division on the Division of Revenue Bill
 - 2011/12 Submission on the Division of Revenue Bill
 - 2010/11 Submission on the Division of Revenue
 - 2009/10 Submission on the Division of Revenue
 - 2008/09 Submission on the Division of Revenue
 - 2007/08 Submission on the Division of Revenue
 - 2006/07 Submission on the Division of Revenue
 - 2005/06 Submission on the Division of Revenue
 - 2004/05 Submission on the Division of Revenue
 - 2003/04 Submission on the Division of Revenue
 - 2002/03 Submission on the Division of Revenue (Costed Norms Approach)
 - 2001/02 Submission on the Division of Revenue
 - 1998/99 Submission on the Division of Revenue
 - 1997/98 Submission on the Division of Revenue
 - 1996/97 Submission on the Division of Revenue

COMPREHENSIVE LIST OF FFC'S SUBMISSIONS AND REPORTS (CONT.)

- OTHER SUBMISSIONS

- Financial and Fiscal Commission Submission in terms of Section 229 (5) of the Constitution of the Republic of South Africa Act No. 108 Of 1996 as amended: Municipal Property Rates Amendment Bill 2010
- 2009 Money Bills Amendment Procedures and Related Matters Bill
- 2009 Submission on Norms and Standards for School Infrastructure
- 2008 Money Bills Amendment Procedure and Related Matters Bill
- 2008 Financial Management of Parliament Bill
- 2008 Public Finance Management Bill
- 2007 Submission on Local Government Laws Amendment Bill

COMPREHENSIVE LIST OF FFC'S SUBMISSIONS AND REPORTS (CONT.)

- OTHER REPORTS
 - The Impact of the International Financial Crisis on Child Poverty in South Africa. A UNICEF and FFC report
 - Analysing Impacts of Alternative Policy Responses to High Oil Prices using an Energy-focused Macro-Micro Model for South Africa
 - A Grant Scheme for the Progressive Realization of Constitutionally Mandated Basic Services in South Africa: A Simulation Model
 - Manual For Checklist For Assessing Function Shifts
 - A Costed Norms Approach for the Division of Revenue 2001
 - Public Expenditure on Basic Social Services in South Africa. An FFC Report for UNICEF and UNDP
 - Local Government in a System of Intergovernmental Fiscal Relations in South Africa: A Discussion Document 27 July 1997



EVOLUTION OF THE ALLOCATION FORMULA TO PROVINCES

HISTORICAL BACKGROUND

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During its 1996 submission the Financial and Fiscal Commission recommended a formula based approach to the division of revenue.

- At inception the formula comprised of seven components
- Each component use certain variable as a needs indicator
 - Weighted equally across province

Education(40) Health (18) **Social Security(17)** Economic Activity(8) Backlogs(3)



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Basic(9) and Institutional component(5)

HISTORICAL BACKGROUND



**What about other provincial functions?
Can the weights be used as budgets guides?**

- Formula has undergone numerous review since inception.
 - In 2001 Backlog component
 - In 2004 social security component
 - Introduction of the poverty component
 - In 2006: Demarcation
 - Annual update of data

*Notes: The 2004 review raised quite a Number of Issues.
Demarcation was also problematic.*



THE PROVINCIAL EQUITABLE SHARE (PES) FORMULA

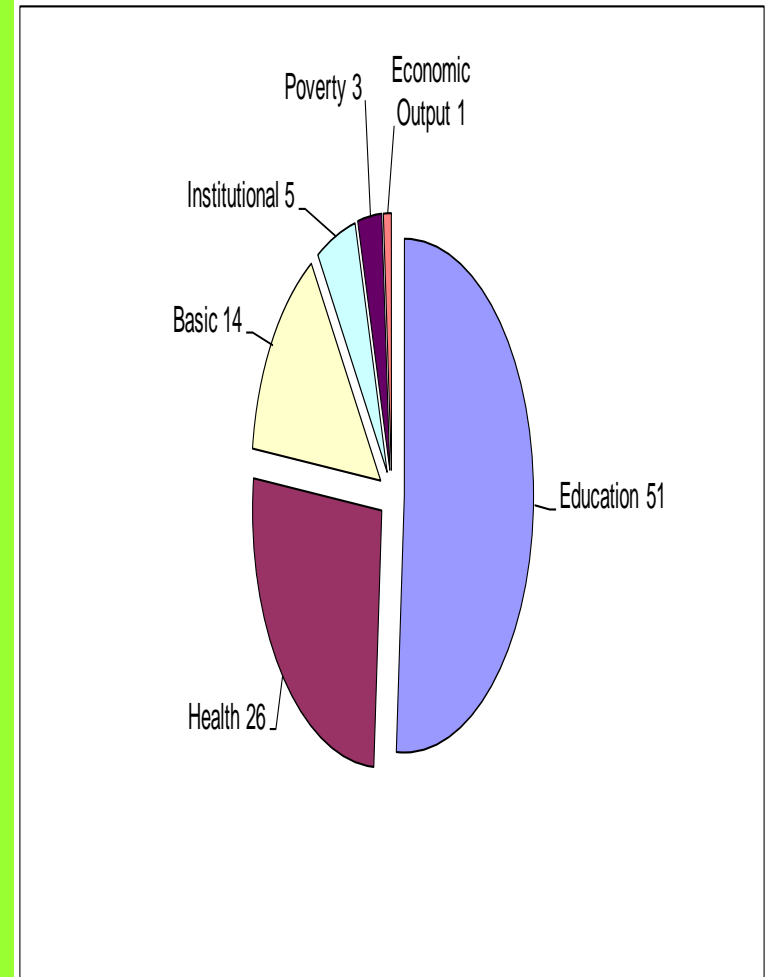
Six components with associated weights

- **Education (48%)**
 - Learner enrolment, school age population
- **Health (27%)**
 - Old: Proportion of people with/without medical aid
 - New: Health risk, demographic profile, case loads in hospitals
- **Basic (16%)**
 - Province share of national population
- **Institutional (5%)**
 - Divided equally between provinces
- **Poverty (3%)**
 - Proportion of poor (quintile 1 and 2) people in a province
- **Economic output (1%)**
 - Contribution of provinces to GDP

CURRENT STRUCTURE OF PES /HORIZONTAL DIVISION

Six components with associated weights

- **Education (49%)**
 - Learner enrolment, school age population
- **Health (29%)**
 - Old: Proportion of people with/without medical aid
 - New: Health risk, demographic profile, case loads in hospitals
- **Basic (14%)**
 - Province share of national population
- **Institutional (5%)**
 - Divided equally between provinces
- **Poverty (3%)**
 - Proportion of poor (quintile 1 and 2) people in a province
- **Economic output (1%)**
 - Contribution of provinces to GDP



PRE-2004 EQUITABLE SHARE FORMULA WEIGHT WITH SW

2003 MTEF baseline

	Education	Health	Social Welfare	Basic	Backlog	Economic Activity	Institutional	Weighted Average
	41%	19%	18%	7%	3%	7%	5%	100%
Eastern Cape	18.4%	17.0%	19.6%	15.5%	20.6%	6.5%	11.1%	17.0%
Free State	6.3%	6.5%	7.1%	6.5%	5.7%	5.3%	11.1%	6.6%
Gauteng	12.6%	14.7%	13.9%	18.1%	5.1%	41.6%	11.1%	15.4%
Kw aZulu-Natal	22.0%	21.7%	19.6%	20.7%	22.9%	17.0%	11.1%	20.6%
Limpopo	15.4%	13.3%	13.7%	12.1%	22.9%	3.0%	11.1%	13.6%
Mpumalanga	7.3%	7.2%	6.5%	6.9%	8.5%	4.9%	11.1%	7.2%
Northern Cape	1.9%	2.0%	2.2%	2.1%	1.3%	1.7%	11.1%	2.4%
North West	8.0%	8.6%	8.7%	8.3%	9.4%	5.7%	11.1%	8.3%
Western Cape	8.0%	8.9%	8.8%	9.7%	3.7%	14.4%	11.1%	8.9%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST-2004 ALLOCATION SHARES

	Education	Health	Basic	Poverty	Economic Activity	Institutional	Weighted Average
	51% ↑	26% ↑	14% ↑	3%	1% ↓	5%	100%
Eastern Cape	17.4%	15.3%	14.4%	20.7%	8.1%	11.1%	16.1%
Free State	5.8%	6.1%	6.1%	7.1%	5.5%	11.1%	6.2%
Gauteng	13.8%	17.7%	19.8%	11.3%	33.0%	11.1%	15.6%
Kw aZulu-Natal	22.8%	21.7%	20.9%	23.3%	16.5%	11.1%	21.6%
Limpopo	15.1%	12.7%	11.8%	17.0%	6.5%	11.1%	13.8%
Mpumalanga	7.6%	7.2%	7.0%	6.7%	7.0%	11.1%	7.5%
Northern Cape	1.7%	1.8%	1.8%	2.0%	2.4%	11.1%	2.2%
North West	7.7%	8.4%	8.2%	8.0%	6.5%	11.1%	8.1%
Western Cape	8.2%	9.2%	10.1%	3.8%	14.5%	11.1%	8.8%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



SUMMARY OF SOCIAL DEVELOPMENT RELATED RECOMMENDATIONS SINCE 1995

INDIRECT SOCIAL DEVELOPMENT RELATED

Year		Subject	Recommendations	Governments' Response
1996/97	P	Provincial Equitable Share Issues	<ul style="list-style-type: none"> Recommended that total provincial allocations be divided by means of a transparent and equitable provincial grant formula: $P = S + B + T + I + m$ 	Government accepted some elements of the formula suggested by the FFC and were considered in making final allocations for 1997. Government further indicated that the final provincial equitable allocations were derived from a formula similar in design to that proposed by the FFC.
2001/02	P	Provincial Equitable Share Issues	<ul style="list-style-type: none"> Proposed a Review of the equitable share formula 	Government accepted the FFC's recommendation and further indicated that the review should take place once provinces take up specific taxation powers as their fiscal capacity may change.
2004/05	P	Provincial Equitable Share Issues	<ul style="list-style-type: none"> The FFC proposed that weights assigned to different components of the formula be revised to take account of the changing priorities and changing composition of shares of social services in total provincial expenditure. 	Government accepted the proposal and the weights of different components were rescaled based on the provincial social services expenditures.
2005/06	P	Provincial Equitable Share Issues	<ul style="list-style-type: none"> Proposed that the backlogs component of the PES be incorporated into the basic component and a separate conditional grant be set up for financing capital infrastructure. This should be allocated to provinces using the FFC's proposed provincial Capital grants Model. 	Government accepts the proposal that the backlog component be removed from the equitable share formula. Government further asked the FFC to submit a supplementary proposal in which it explains in more detail its proposed Capital grant Model.

DIRECT SOCIAL DEVELOPMENT RELATED

Year		Subject	Recommendations	Governments' Response
2002/03	P	Social Services	<ul style="list-style-type: none"> Recommended that social security should be a national responsibility administered through the establishment of the national social security agency 	Government accepted the proposal and is currently implementing it.
2003/04	L	Social Services	Proposed a design of the poverty alleviation package which should align the social security payments with provision of free basic services.	Government undertook a review of the poverty alleviation programmes and has decided to phase most of them into the equitable share or into the infrastructure grants.
2006/07	P	Social Services	FFC recommended that specific consideration be given to allocating funds to social welfare services in the provincial equitable share. FFC proposal on the setting of norms and standards for the delivery of a defined minimum basket of social welfare services by provinces	Government agreed with the FFC proposal have increased the basic component to allow provinces the discretion to increase allocation to social welfare Government agreed with the FFC and undertook to do a study to clearly define this basket of services
2010/11	N	Social Services	The FFC recommended that Government should increase the rollout of social grants to cushion poor people from the effects of the economic downturn. 2010/11	In order to assist Government in appropriately dealing with this tension, it would be useful if future recommendations by the FFC could provide guidance around appropriate grant values that will result in an optimal balance between coverage and available resources.