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Division of Revenue Bill at centre of disagreement over allocation of funds

State, fiscal commission lock horns on grants

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Cape Town – Differences have popped up concerning what the Finance and Fiscal Commission (FFC) has recommended and what the government has decided to put forward in the Division of Revenue Bill, which was tabled this week.

The chairman of the FFC, Bethuel Setai, told members of parliament yesterday that the commission and the government had disagreed on some conditional grants, which allocate money for specific functions to provinces or local authorities.

In particular, he told a meeting of the finance portfolio committee and the joint budget committee that the commission wanted the Land Care Grant and the Comprehensive Agricultural Support Grant to be amalgamated, to cut the administrative burden on provinces.

Parliamentarians had already heard this week that most provinces consistently underspent the two agriculture grants. The government, however wants to keep the two grants separate, because each serves a different objective.

There are also differences over the Municipal Infrastructure Grant. The FFC fears that infrastructure rolled out under the grant may, in fact, be deteriorating quickly.

The government view is that municipalities are required under the Municipal Finance Management Act to budget for the maintenance and operation of infrastructure.

However, Jaya Josie, the deputy chairman of the FFC, told MPs that although the commission also subscribed to that view, municipalities often did not have sufficient revenue raising capacity to do the work.

The National Human Settlement Grant – which funds specific house-building projects – is also the subject of disagreement.

The commission believes that the formula for making the grant should cater for differences in regional costs.

The government disagrees, saying that it would be a difficult exercise that might complicate the formula.

"The commission notes the government response," Josie said, "but also observes that these differences are quite significant. The formula may be complicated but the location of the project can be taken into account."

He added that the FFC was conducting further research on the matter as part of its long-term research agenda.

In more general observations on the government's budget and spending plans, the commission noted that the Division of Revenue Bill was based on critical economic assumptions, but that some of these forecasts had created the impression that the assumptions had not been verified.

The process could be improved, the commission said, by requiring that an independent public authority verified the assumptions.

Josie noted that the tax to gross domestic product ratio in the budget was higher than the internationally accepted norm of 25 percent.

"It is 28.5 percent, which raises a credibility gap," he said. "The higher ratio implies a greater tax burden than is in fact the case." He urged that a desirable tax burden indicator be designed.