FINANCIAL AND FISCAL COMMISSION SUBMISSION ON THE 2014 MEDIUM TERM BUDGET POLICY STATEMENT

"For an Equitable Sharing of National Revenue."

28 October 2014

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List of Acronyms

BAU	Business as Usual
CWP	Community Works Programme
DHS	Department of Human Settlements
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FET	Further Education and Training
FFC	Financial and Fiscal Commission
GDP	Gross domestic product
GTAC	Government Technical Advisory Centre
HPV	Human Papillomavirus
HSDG	Human Settlements Development Grant
IGFR	Intergovernmental Fiscal Relations
LES	Local Equitable Share
MDG	Millennium Development Goals
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NHI	National Health Insurance
NSFAS	National Student Financial Aid Scheme
PES	Provincial Equitable Share
RHIG	Rural Households Infrastructure Grant
RSC	Regional Services Council
USDG	Urban Settlements Development Grant
VAT	Value Added Tax

1. Background

1.1 This Submission on the 2014Medium Term Budget Policy Statement (MTBPS) is made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (2009), which requires Committees of Parliament to consider recommendations by the Financial and Fiscal Commission (FFC or the Commission)when dealing with money bills and related matters. The Submission is also made in terms of Part 1 (3) {1} of the Financial and Fiscal Commission Act (2003) as amended, which provides for the Commission to act as a consultative body for, and to make recommendations to, organs of state in the national, provincial and local spheres of government on any financial and fiscal matters.

1.2 Overall the Commission welcomes the main themes in the 2014 MTBPS and they resonate very well the Commission Submission for the Division of Revenue 2015/16 that was tabled in Parliament in May 2014. In that Submission, the Commission argues that at a time of uncertainty for the world economy and financial system, South Africa is facing economic and fiscal challenges that are more severe than many people realise. In particular:

a. Potential *public debt unsustainability*, which is more long-term. To prevent this will require fiscal discipline that does not jeopardise short-term economic growth but enhances longer-term economic growth and employment prospects.

b. *High levels of poverty and inequality.* This is a pressing economic problem and will require bold policies, new partnerships and a continuing commitment to social programmes that help the country's most vulnerable citizens.

1.3 Government has set a clear course of comprehensive economic and social reforms, with the National Development Plan (NDP) being a key element. To finance these socio-economic programmes, government needs to have steady and dependable revenue growth. This means having an economy that is growing fast enough to provide revenue necessary for these programmes. Ensuring that public spending has a greater impact, through efficient and effective delivery of public services, will also stimulate growth. Nevertheless, trade-offs will have to be made, to strike a balance between fiscal sustainability and protecting (if not extending) existing socio-economic gains. Under the theme of *Balancing Fiscal Sustainability with Socio-economic Impact*, the Submission looks at ways of achieving this balance and the need for excellent and affordable public services.

1.4 Given the prevailing economic climate, a combination of enhanced fiscal consolidation and investment is warranted for future economic growth. The poor and vulnerable must be cushioned through maintaining effective and efficient use of social expenditure. This can contribute directly to growth and jobs especially when taken in tandem with interventions devoted to job-friendly growth. The Commission also fully endorses Government's intention to intensify initiatives to combat waste, inefficiency and corruption.

1.5 While the enhanced fiscal consolidation approach, supplemented by cost containment measures, will have an influence on improved resource management, on their own these measures are not enough to yield efficiencies within the work of the state and public goods and services delivery. More effort regarding inputs required to build a capable state is required. In this regard focus should be placed on economic and social capabilities for citizens and infrastructure and how these will be managed within the context of current consolidation measures. In this regard, the ongoing Commission work for the 2016 Division of Revenue places emphasis on (1) urbanization and accelerated economic growth and (2) the pressures of infrastructure expansion relative to maintenance within the fiscal consolidation space. Thus, for South Africa to aspire to an economic growth rate that is likely to make a more meaningful dent in unemployment and uplift the poor communities, much more needs to be done to implement the tenets of the NDP and the medium term strategic framework (MTSF) in this regard.

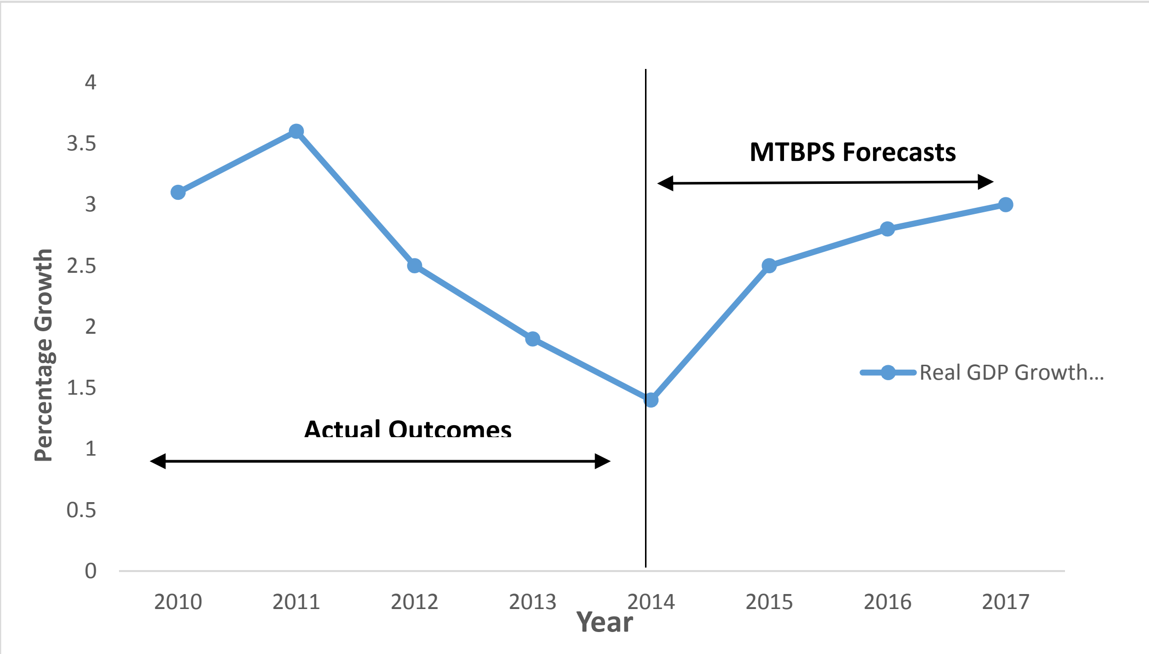
2. Economic Outlook and Public Finances Overview

2.1 The Minister of Finance's announcement of a downward revision of the economic growth figure − from 2.7% when the 2014 Budget was presented in February to just 1.4% − presents a major challenge to achieving the targets set out in the NDP document, most notably a target of 11 million new jobs by 2030, with 5 million being created by 2020, which implies reducing unemployment to around 14% by 2020 and 6% by 2030. To achieve this target, the NDP cites an average economic growth rate of 5.4%, which increases with each year that the country records sluggish economic growth rates.

Therefore, the future economic growth trajectory necessitates considerable back-loading (which may be unrealistic).

2.2 Figure 1 shows the trend in actual and projected growth of real gross domestic product (GDP) between 2010 and 2017.

Figure 1. Actual and projected growth in GDP



Source: 2014 Budget Review, 2014 MTBPS. Commission's calculations.

2.3 Economic growth forecast for 2015 has been cut to 2.5% from 3.2% (2014 February Budget) while for 2016 it has been revised downwards to 2.8% from 3.6% previously. A forecast for 2017 has now been added, at 3.0%. The new forecasts would appear to be realistic and are not far removed from the Commission's 2011 GDP simulations made under three scenarios: business as usual (BAU)[1], moderate[2] and severe[3]. The Commission noted then that GDP will not recover to the BAU levels without positive shocks and deliberate interventions to counteract the negative impacts of the world economic crisis. South Africa appears to be tracking the then pessimistic scenario, which is further exacerbated by external and domestic factors, with domestic factors becoming

[1]In the context of this submission, business as usual, in macroeconomic terms, is the natural trend of the economy and economic policy.
[2]The moderate scenario is consistent with the view that growth begins to pick up, albeit moderately, from the end of 2009 onwards.
[3]A severe scenario reflects a protracted slow global growth era and implies tight public budgets for some time to come.

more important in recent downgrades of economic growth. In terms of external factors, exports are under pressure from sluggish global demand and declining commodity prices stemming from the slowdown in China's economic growth. Domestically, factors including labour unrest in mining and manufacturing sectors, electricity supply constraints have combined to depress consumer spending and private fixed investments, further exacerbating negative structural factors such as poor educational and health outcomes.

2.4 The downward GDP forecast reductions for the next three years imply reductions in forecast growth of government revenue and concomitant increases in the budget deficit. However, to its credit Government has not deviated much from planned deficit reduction announced in the 2014 Budget in the 2014 MTBPS despite the worsened economic environment it confronted when setting the MTBPS (see Table 1). For 2014/15, the budget deficit is at 4.1% of GDP, with government planning to reduce it to 2.5% of GDP by 2017/18.

(a) Government's plan at the time of the 2013 MTBPS was to reduce progressively the budget deficit from 4.2% of GDP in 2013/14, to 4.1% of GDP in 2014/15, 3.8% of GDP in 2015/16 and 3.0% of GDP in 2016/17. It is on the basis of this deficit reduction programme that the leading credit rating agencies then gave Government the benefit of doubt in announcing that they had refrained from downgrading the credit rating on government bonds in December 2013.

(b) Budget 2014 deficit reduction forecasts particularly over the two outer years of the 2014 MTEF reflect a much more aggressive approach relative to what was projected at the time of the 2013 MTBPS. A similar trend is evident with respect to 2014 MTBPS, where maximum reduction is left to the outer two years of the medium term expenditure framework (MTEF) period.

(c) During 2014 Budget, Government promised a budget deficit of 4.0% and the 2014 MTBPS marginally raises this to 4.1% of GDP. The budget deficit to GDP ratio is restricted to 3.6% for 2015/16 and 2.6% of GDP in 2016/17 (compared to 2.8% of GDP as budgeted for in February) before falling to 2.5% for 2017/18 (new additional year).

(d) If these deficit reduction plans are realised, this should be enough to stave off any downgrades to the sovereign credit rating.

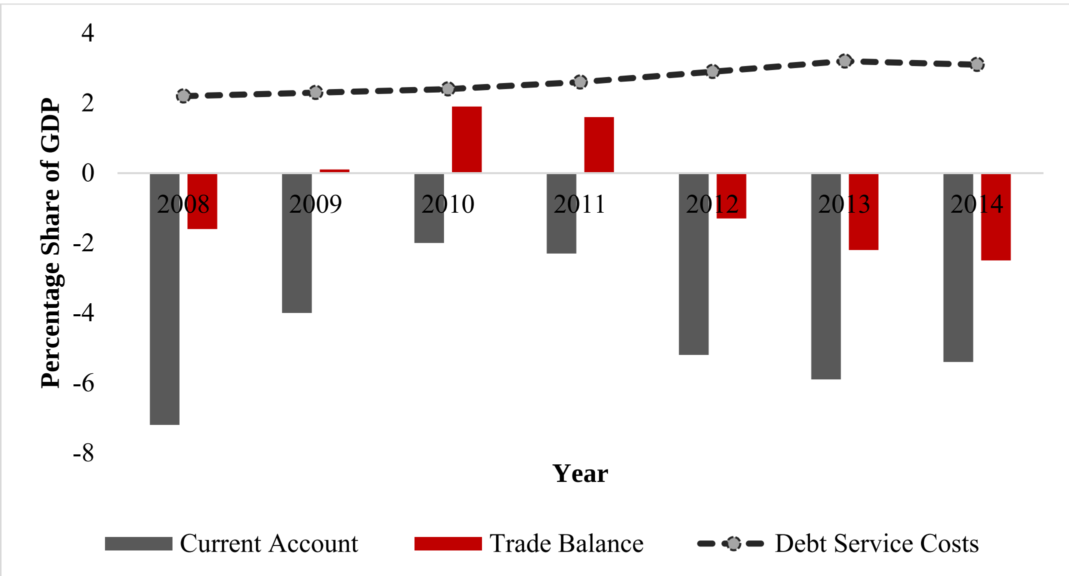
Table 1. Budget deficit as % of GDP, 2013-2017

	2013	2014	2015	2016	2017
Budget 2013	-4.6%	-3.9%	-3.1%		
MTBPS 2013	-4.2%	-4.1%	-3.8%	-3.0%	
Budget 2014	-4.0%	-4.0%	-3.6%	-2.8%	
MTBPS 2014	-3.9%	-4.1%	-3.6%	-2.6%	-2.5%

Source: Budget Review (2013, 2014); MTBPS (2013, 2014). Commission's calculations

2.5 A useful comparison macroeconomists often use is that between growth in the budget deficit and size of the economy (GDP growth). This comparison gives clues about the direction public debt will likely take. The forecast economic growth for the MTEF period is smaller than that of the budget deficit. This implies that projected public debt will rise faster than had previously been anticipated. Indeed public debt to GDP ratio is now projected to reach 45.4% of GDP by 2016/17 compared to 44.3% of GDP announced in the 2014 Budget. The new and slightly higher debt to GDP level still implies that debt servicing costs will grow at 9.3% per year over the next three years, which is significantly faster than the 7.6% per year increase proposed for government expenditure as a whole as shown in Figure 2.

Figure 2: Share of Current Account, Trade Balance and Debt Service Costs in GDP – 2008 – 2014



Source: MTBPS, 2014. Commission's calculations.

2.6 In the interest of budgetary stability, the Commission believes that South Africa should embark on aggressive fiscal consolidation as discussed earlier. Renewed decelerating global economic growth and relentless negative domestic factors present substantial uncertainties and downside risks to the economy. This further indicates the need to rebuild fiscal buffers, which helped to moderate the effects of the 2008/09 recession and provided Government with the necessary fiscal space to act in a countercyclical manner. As noted in the Commission's past recommendations, a successful fiscal consolidation requires deciding which components of the budget need to be consolidated and the pace at which to achieve fiscal consolidation. In this regard, the Commission welcomes the proposed expenditure reprioritisation that cushions the poor from adjustment and also supports Government efforts to impose hard budget constraints aimed at obtaining maximum impact and quality of expenditure.

(a) A credible commitment to fiscal targets (within the framework of fiscal guidelines) is also necessary to ease the frequency of sovereign debt downgrades as Government demonstrates its ability to control spending pressures.

(b) The Commission welcomes Government's strong intent re-emphasised in the 2014 MTBPS to combat waste, inefficiency and corruption and notes special provisions to deal with issues related to waste, inefficiency and corruption. These provisions should be enforced where applicable. The Commission also supports efforts to moderate the public sector wage bill.

3. Fiscal Frameworks and Revenue Proposals

Fiscal Framework

3.1. As discussed above, the medium terms estimates are presented under a depressed macroeconomic outlook with projected weaker revenue and higher debt services costs. This situation imposes constraints on the broader fiscal framework as shown in Table 2, which outlines the proposed fiscal framework for the 2015 MTEF period. In total, Government is expected to spend over the three years R3.947 trillion relative to a revenue envelope of R3.497 trillion. Over the 2015 MTEF period, real annual average growth in expenditure is projected at 4.7%. A relatively stronger 6.8% growth is projected in respect of revenue. The bulk of resources are allocated in respect of non-interest allocations in the form of equitable share and conditional grant funding. The key components of the fiscal framework are discussed in greater detail below[4]

[4]The components of debt service and consolidated budget deficit have already been discussed above as part of the economic outlook and that discussion is not repeated here.

Table 2. Consolidated fiscal framework, 2011/12 - 2017/18

	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18
R billion/Percentage of GDP		**Outcome**		**Budget**	**Revised**		**Medium-term estimates**	
Main budget								
Revenue	745.3	799.2	886.1	962.8	956.6	1 055.1	1 169.4	1 272.9
Expenditure	889.9	965.5	1 047.8	1 142.6	1 136.3	1 222.3	1 308.4	1 416.7
of which:								
Non-interest allocations	*813.5*	*877.4*	*946.6*	*1 024.7*	*1 021.9*	*1 090.8*	*1 153.9*	*1 222.0*
Debt-service costs	*76.5*	*88.1*	*101.2*	*114.9*	*114.5*	*126.5*	*139.4*	*149.7*
Unallocated reserves	–	–	–	*3.0*	–	*5.0*	*15.0*	*45.0*
Main budget balance	**-144.6**	**-166.3**	**-161.7**	**-179.8**	**-179.7**	**-167.2**	**-139.0**	**-143.8**
	-4.9%	*-5.2%*	*-4.7%*	*-4.7%*	*-4.8%*	*-4.1%*	*-3.2%*	*-3.0%*
Cash balances of social security funds, public entities and provinces	33.8	30.1	27.0	26.7	26.5	22.7	25.0	25.0
Consolidated budget balance	**-110.8**	**-136.2**	**-134.7**	**-153.1**	**-153.2**	**-144.5**	**-114.1**	**-118.7**
	-3.7%	*-4.3%*	*-3.9%*	*-4.0%*	*-4.1%*	*-3.6%*	*-2.6%*	*-2.5%*

Source: MTBPS, 2014. Commission's calculations.

NON-INTEREST ALLOCATIONS: DIVISION OF REVENUE

3.2. Table 3 summarises the division of non-interest allocations amongst the three spheres of Government. After accounting for national debt, there are estimated receipts of R1, 02 trillion to share amongst the three spheres in 2014/15 financial year. The budget available for sharing is projected to increase to R1.09 trillion in the 2015/16 financial year and R1.2 trillion in the outer year. The revised estimate for the 2014 division of revenue has been revised upwards by R1.4 billion.

3.3. Over the 2015 MTEF period, the division of revenue amongst the three spheres will generally be characterised by moderate growth increases with a real annual average growth of 2.9% being projected. As a result of the constrained fiscal environment that persists, Government has proposed to lower the expenditure ceilings for the first two years of the 2015 MTEF by R10 billion and R15 billion respectively. With respect to the national sphere, staying within the confines of the expenditure ceilings will be achieved through the freezing of posts, withdrawing posts where vacancies have been persistent and reducing the growth in transfers to entities. Whereas the bulk of provincial funding comprises the discretionary equitable share allocation which implies that provinces have the right to determine how it is allocated, it is anticipated that this sphere will follow suit, reign in non-critical costs and improve efficiencies.

3.4. Over the 2015 MTEF period, national government allocations amount to 47.9% of the total allocation. For the 2014/15 financial year, the share of national government revenue increased slightly owing to the shifting of the further education and training (FET) colleges and the ports health functions from provinces to national government. Because expenditure ceilings are in force, the baseline allocations for both provinces and local government will be revised downwards in the 2015/16 and 2016/17 financial years to accommodate this function shift. The baseline allocations for provinces is revised downwards by R11 billion, while local government is reduced by R2.4 billion within the two years. Government's position on fiscal consolidation is in line with the Commission's submission for the 2014/15 Division of Revenue which emphasised the need for South Africa to continue on a path of fiscal consolidation. In its recommendations for the 2015 Division of Revenue, the Commission advises that Government avoids across-the-board cuts when implementing expenditure ceilings as a means of debt control. Such blunt tools treat valuable, efficiently run programmes and outdated and poorly managed programmes in the same way. Spending should be aligned with government priorities, to ensure adequately funding of high-priority initiatives and elimination or substantial reduction of lower-priority programmes. The expenditure review studies being implemented and published under the auspices of the newly established Department of Planning, Monitoring and Evaluation should form the basis when sharing the burden of implementing such ceilings.

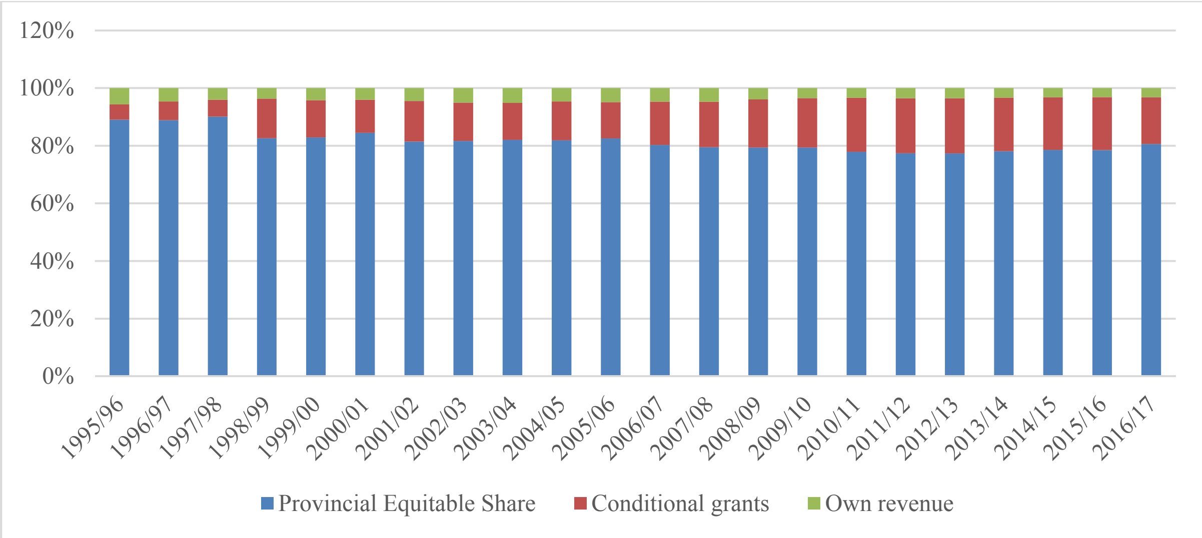
Table 3. Medium term expenditure framework division of revenue (R' billion)

Division of Revenue	2014 Budget	2014 MTBPS	2014 MTBPS			Real Annual Average Growth Rate (2015/16-2017/18)
	2014 M/term Estimate	2014/15 Revised	2015/16	2016/17	2017/18	
National allocations	489.4	494.7	523.1	553.2	585.0	2.8%
Provincial allocations	444.4	440.2	468.5	496.8	527.0	3.1%
Equitable share	362.5	360.2	383.0	405.6	429.3	2.9%
Conditional grants	82.0	80.0	85.4	91.2	97.7	4.0%
Local government allocations	90.8	91.1	99.2	103.9	110.0	2.4%
Total allocations	**1024.6**	**1 026.0**	**1 090.8**	**1 153.9**	**1 222.0**	**2.9%**

Source: 2014 Budget Review, 2014 MTBPS. Commission's calculations.

3.5. Provinces are allocated R1.4 trillion over the 2015 MTEF period. With a real annual average growth of 3.1%, allocations to provinces are projected to show the largest growth over the 2015 MTEF period. The provincial equitable share (PES), which represents the provinces' vertical share of nationally raised revenue, forms an important cornerstone of unconditional finance. As shown in Figure 3, provinces have limited own revenue capacity where the share of own revenue has declined from 6% in 1995/6 to 3% in 2013/14. The largest share of provincial funding is in the form of intergovernmental transfers (PES and conditional grants). PES as a proportion of total provincial revenue has declined gradually from 89% in 1995/96 to 78% in 2013/14 while conditional grants increased from 5% in 1995/96 to 19% in 2013/14. For the 2015/16 financial year, the PES baseline is revised downwards by R2.6 billion and another R4 billion in 2016/17 as a result of ongoing expenditure ceilings. Notwithstanding the reductions in the baseline, the PES still maintains a healthy real annual average growth of 2.9% over the MTEF.

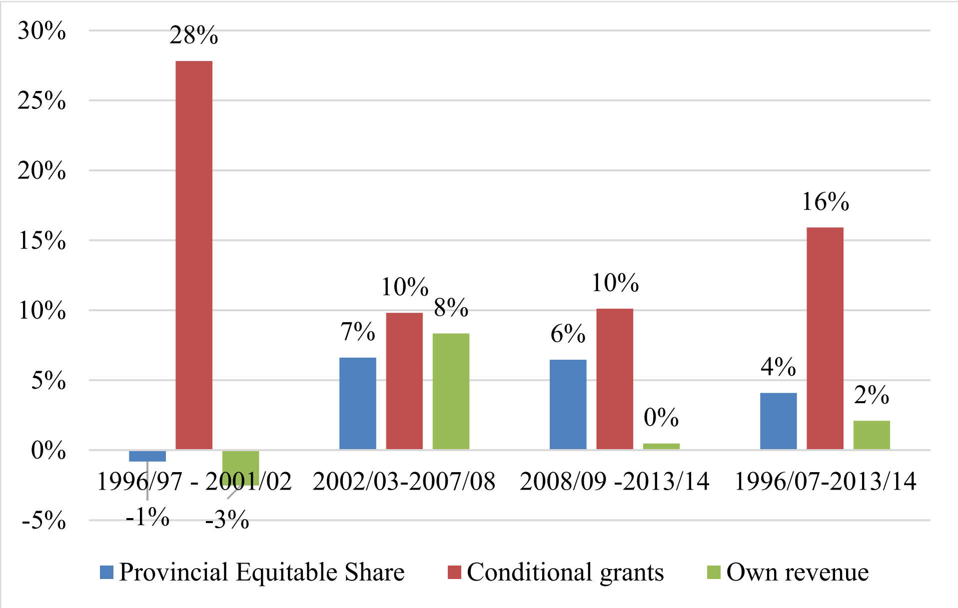
Figure 3: Provincial Revenue by Source, 1995/96 – 2016/17 (%)



Source: Adapted from Financial and Fiscal Commission's computations based on National Treasury data.

3.6. With a view to gauge the long term viability of the provincial fiscal framework, Figure 4 plots average annual growth rates for each revenue source for the pre global financial crisis period (2002/03 – 2007/08) and global financial crisis period (2008/09 – 2013/14). The growth in provincial own revenue was most significantly affected by the impact of the global financial crisis where the average annual growth in provincial own revenue was 0% compared to 8% for the period 2002/03 – 2007/08. Remarkably, there was no noticeable impact on conditional grants growth (10% throughout) and very minimal impact on provincial equitable share.

Figure 4: Average Annual Growth of Provincial Revenue Sources



Source: Adapted from Financial and Fiscal Commission's computations based on National Treasury data.

3.7. Due to insufficient revenue-raising powers and concerns over debt services' cost, provinces are unable to source private funding to finance their infrastructure projects. However, legislations such as the Public Finance Management Act of 1999 and Section 2 (b) of the Borrowing Powers of Provincial Governments Act (No.48 of 1996) make provision for intergovernmental lending, where the National Treasury, through the loan coordinating committee, borrows on behalf of provinces[5]. The inability of provinces to maximise own revenue collection has created a heavy reliance on intergovernmental transfers and a mismatch between provincial own revenues and expenditure needs which widens the vertical fiscal imbalance. Figure 4 shows conditional grants have consistently grown faster than other revenue sources over the eighteen year period. The increase in conditional grants is in response to a perception harboured by national government that provinces are not or are incapable of prioritizing national policy objectives and speed up infrastructure service delivery. By controlling funds from the centre, there is a belief that provincial performance will improve in response to imposing conditions that will hold provinces to account. It is the Commission's view that following the recent review of the Local Government Fiscal Framework (on-going) it is now time to review the provincial fiscal framework so that provinces' role in economic development can be better

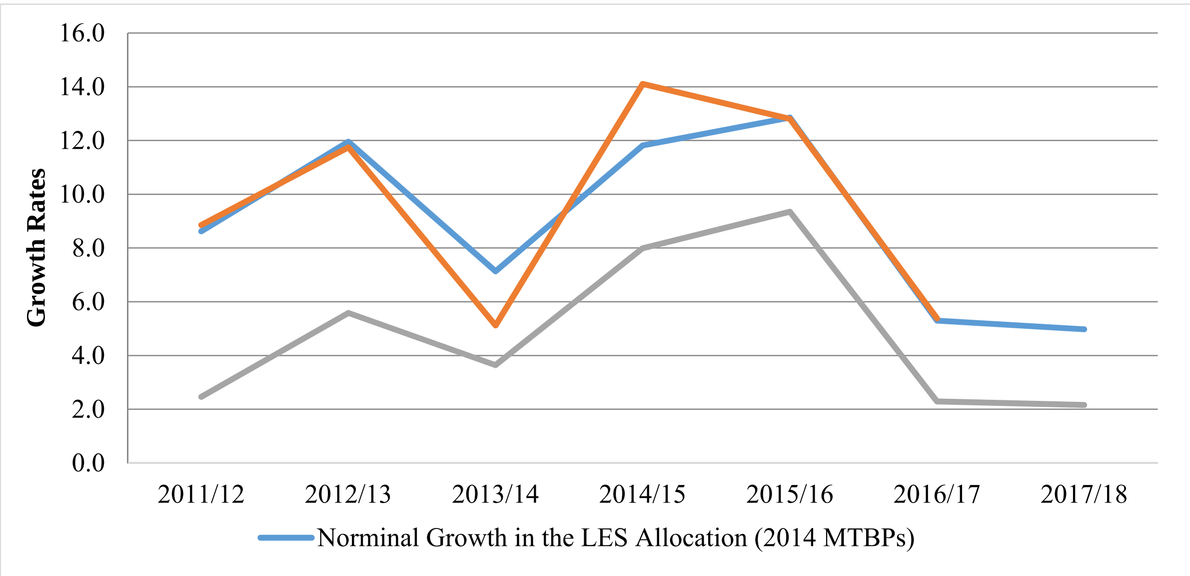
[5] The Gauteng Loan Agreement is a case in point. Similarly the Municipal Finance Management Act of 2003 provides the legislative framework for municipal borrowing.

appreciated. The current practice has had the unintended consequence of characterising provinces as implementation agents for government's social programs, namely education, health and social development. Indeed, resources for other provincial functions become a residual resulting in inherited disparities being perpetuated.

3.8. The Commission notes the growth in allocations to the local government sphere. Local government receives R91.1 billion in 2014/15 and this increases to R110 billion in 2017/18. The Local Equitable Share (LES) and conditional grants grow by 8% and 5% on average annually between 2014/15 to 2017/18.

3.9. The LES is expected to increase from R44.5 billion in 2014/15 to R55.5 billion in 2017/18 despite the tight fiscal situation and prospects of lower economic growth. What is even more remarkable is that as shown in Figure 5, LES in the 2014 MTBPS has risen faster (14%) than in the 2014 budget (11.8%), indicating that more resources have been channelled to the local government sector since February 2014. In real terms the LES has grown quite slowly. In outer years the rate of growth of the LES allocations would progressively decline.

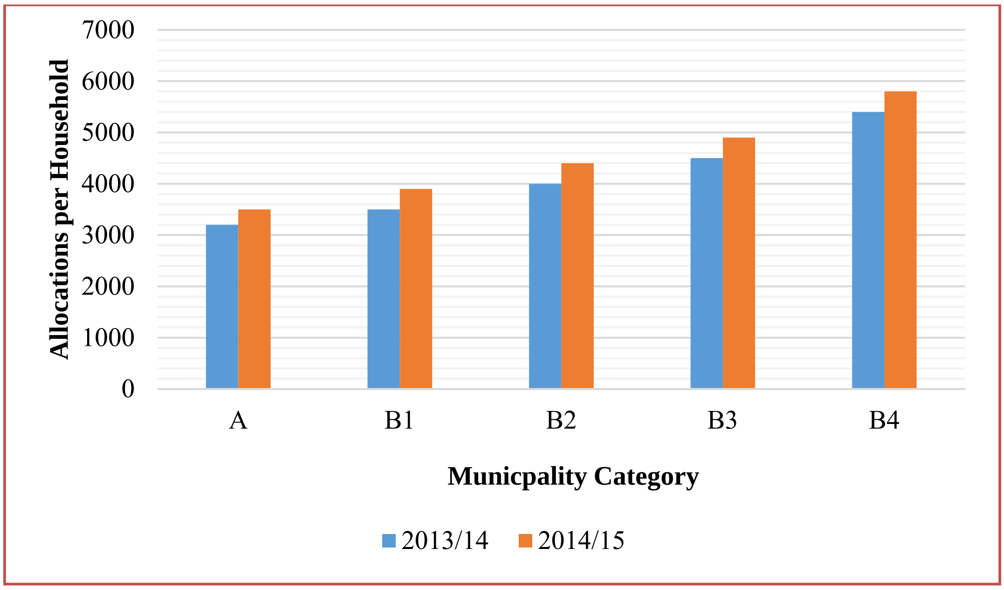
Figure 5: Growth in the LES



Source: MTBPS, 2013, 2014. Commission's calculations

3.10. The Commission notes the greater distribution of funds via the LES to poorly resourced municipalities (Figure 6) thereby contributing to making the distribution more equitable at the margin. It is the Commission's view that the spending ability and absorptive capacity of municipalities should constantly be monitored so that the beneficiaries are not disadvantaged in terms of service delivery by lack of capacity. Municipalities are also implored to use available resources efficiently and effectively and indigent registers should be regularly updated so that basic services are extended to those deserving.

Figure 6: LES allocations per poor household



3.11. It is worth noting that in contrast to provincial governments, Section 229 of the constitution confers on municipalities substantial tax powers including property rates, user charges and other taxes, levies and duties, if authorised by national legislation. Some categories of municipalities receive a share of the national fuel levy as a replacement for a local tax source (Regional Service Council (RSC) levy) that has since been abolished on the grounds of violating basic tax principles and exposing municipalities to potential litigation[6]. Overall own revenue constitutes approximately 69% of total local government revenue while the remainder is made up of transfers. In practice, however, there is wide variation in the ability of municipalities to generate own revenues. Own revenue as a proportion of total revenue ranges from an aggregate of 76% for Category A (metropolitan) municipalities to an average of 30% and 15% for category B (local) and C (district) municipalities respectively (FFC, 2013). These huge variances in own revenue capacity across municipalities are conditioned by highly skewed and concentrated geographic location of economic activity, mainly in urban areas. Of concern

[6]The base of the RSC levy was gross sales and total payroll of companies and the Constitution explicitly prohibits subnational government from levying this taxes

for local government fiscal frameworks is not only that fiscal capacity varies substantially across various municipalities, but also that fiscal capacity appears to have declined over time. In 2004/5, aggregate municipal own revenues amounted to 90% of aggregate expenditure. In 2014, this has declined to about 75% of aggregate municipal expenditure. Contrary to popular belief, the global financial crisis did not have a perceptible effect on these trends but merely reinforced them. One of the main drivers behind the decline in the municipalities' own revenue capacity and the concomitant increase in grant dependence was the abolition of the RSC levy. To date, an appropriate own revenue instrument to replace the RSC levy has not yet been found for district municipalities. One of the reasons is that in 2005 the Department of Cooperative Governance (then known as the Department of Provincial and Local Government) announced that the roles and responsibilities of municipalities and provincial governments would be reviewed. This process has yet to be concluded and the roles and responsibilities of district municipalities have to be finalised before the identification of a suitable revenue instrument.

3.12. Finally, local government is faced with huge challenges as it moves into the future. Responding to recent calls around the need for a differentiated approach and adequate funding to increase basic service provision, the Local Government Fiscal Framework and related matters such as addressing service backlogs are becoming significant issues for local government. The flow-on impact of the global financial crisis requires a governance response at a local level. Other challenges that need to be met at a local level include coping with an ageing infrastructure and delivering affordable housing. In light of these inefficiencies on the part of local government, there is the general perception that the local government financing system is inadequately funding municipalities. It is important that municipalities are appropriately funded and spend efficiently and effectively in order to deliver quality services and extend access to basic services to poor households. Furthermore, key developments over the 2014 MTEF, relevant for the Local Government Fiscal Framework, include assignment of the housing function (currently a provincial mandate) to six metros and a greater distribution of resources to rural municipalities following introduction of the new local government equitable share formula. It is important to critically assess these key developments in local government financing.

3.13. In 2011, the Commission initiated a comprehensive review of the Local Government Fiscal Framework. The Commission's conclusions and recommendations from this process were officially tabled in Parliament in April 2013. The Commission raised concerns on the performance of infrastructure grants (e.g., on recurrent under-spending, proliferation, perverse incentives, and whether they reflect priorities of the NDP or government policy in general[7]). To this end, the Commission welcomes the ongoing review of infrastructure grants by Government that the Commission is a member of, whose key objective is to make evidence-based recommendations on how the current system of funding municipal infrastructure can be enhanced. The Commission also welcomes the timely implementation of two recommendations emanating from the review process alluded to above, namely (a) the rationalisation of four grants administered by Department of Water Services (the municipal water infrastructure grant, water services operating subsidy grant, rural households infrastructure grant and the regional bulk infrastructure grant) and (b) the merging of the public transport infrastructure grant and the public transport network operations grant into a single grant[8]. The rationalisation of grants and merging of two transport grants has potential to minimise inefficiencies associated with overlap of grant mandates, and also helps improve grants management. However, rationalisation and merging of grants should not be seen as substitute to efforts at uncovering the root cause of underperformance and decisively dealing with them.

Revenue and Tax Proposals

3.14. At the time when Budget 2014 was tabled, government was able to accommodate personal tax relief to compensate for the effects of bracket creep arising in an inflationary environment. An amount of R9.25 billion was allocated for such purposes. This reduced the burden of personal income tax within overall tax revenue. The economic environment within which the 2014 MTBPS has been tabled in, does not allow for a continuation of this trend. As a result of the downward revision to GDP growth and overall constrained fiscal environment, revenue projections have followed suit with downward revisions amounting to R10 billion, R7 billion and R16.8 billion in 2014/15, 2015/16 and 2016/17 respectively.

3.15. When tabling its submission on the 2014 fiscal frameworks and revenue proposals in February 2014, the Commission welcomed the improved performance of direct taxes, notably corporate tax relative to 2013 and cautioned against a slowdown in value added tax (VAT) as a result of lower consumption in the economy. As shown by Table 4, predictions in respect of VAT have been realised but the improved performance in

[7]FFC (2012), Local Government Fiscal Framework
[8]MTBPs (2013), page 50

corporate tax has not been sustained. Underperformance with respect to corporate income tax, customs duties and VAT were the largest contributors to the R10 billion shortfall. MTBPS 2014 indicates that these same taxes have underperformed during the first half of the current fiscal year.

Table 4. Revenue source revisions and estimates for 2015/16

	2014/15			2015/16
R billion	**Budget**	**Revised**	**Deviations**	**Estimates**
Persons and individuals	335.9	341.5	5.6	377.2
Companies	198.9	192.3	-6.7	211.7
Value-added tax	267.2	262.7	-4.5	288.5
Dividend withholding tax	19.3	19.8	0.6	21.3
Specific excise duties	31.1	32.5	1.5	33.4
Fuel levy	47.5	46.0	-1.5	47.2
Customs duties	50.3	45.0	-5.3	49.3
Other	43.5	43.8	0.4	47.3
Tax policy and administration reforms	–	–	–	12.0
Gross tax revenue	**993.7**	**983.6**	**-10.0**	**1 088.1**

Source: MTBPS 2014.

3.16. The Commission awaits the report of the Davis Tax Committee on review of the country's tax system. The Committee's recommendations will be discussed by the Commission in formulating proposals for future recommendations to Government.

3.17. In his 2014 MTBPS speech, the Minister of Finance indicated that in order to avoid real cuts in expenditure, additional revenue of R15 billion per annum will need to be raised. As part of its submission on the 2013 MTBPS, the Commission raised concerns around declining tax buoyancy[9] in relation to the strained fiscal environment. A decline in this ratio implies that revenue generation is less sensitive to economic growth. This is a concern in that increased economic growth will not lead to a concomitant increase in government revenues. As a result, a proposal to increases taxes as part of debt stabilisation could be viewed as a small price to pay in order to avoid a debt trap down the line that in itself would fuel significantly weaker growth and exacerbate poverty and inequality.

3.18. Finally, with regard to non-tax revenue sources it is noticeable that the other three components of saving, household, corporate and government saving, show the same trend of decline as tax collection. This has resulted in widening current account deficits

[9]Tax buoyancy is a measure of how rapidly the actual revenue from a tax rises as the tax base rises.

and reliance on foreign inflows to facilitate development. Efforts at raising domestic saving to finance national development should be stepped up. There are also instances in which private sector financing can be drawn into initiatives which the state undertakes. Road infrastructure would be one such example, where forms of private sector investment may be achievable, despite recent resistance to the e-toll arrangement applicable to Gauteng freeways. Another example that is clearly within government policy parameters is the Independent Power Producer initiative being pursued by Eskom, in which private sector proposals are invited for certain forms of power generation. Under these, the private sector parties are to provide the entire financing, and a supply contract entered into whereby Eskom or a sister central network operator purchases the power at a contracted rate. Fuel pipeline projects can be undertaken by private sector parities in somewhat similar vein, and such a project was considered by the state before reverting to have Transnet undertake the project a few years ago. Rail concessions, in which a certain rail line is operated by a private sector firm under contract to a state entity such as Transnet, have previously been contemplated, and could once again be a possibility. This would shift the requirement to finance rolling stock for the concession rail route to the private sector firm. At present, Transnet is undertaking a massive acquisition of rolling stock on its own balance sheet, which is material enough to affect the public debt situation of the country. The investment being undertaken by Transnet in rolling stock is of the order of R135billion. The investment by Eskom in Medupi and Kusile power stations is around R280billion. A nuclear programme would add massively to this. Even if a portion of these investments, say 30%, could be met by private sector parties, the reduction in debt financing required by government and its public corporations could be reduced by figures of R100 billion or more.

UNALLOCATED RESOURCES AND EXPENDITURE PRIORITISATION

3.19. In its submission on the 2014 fiscal framework and revenue proposals, the Commission noted that allocations in respect of the contingency reserve/unallocated resources[10] were

[10]The contingency reserve refers to an amount set aside but not allocated in advance to accommodate changes to the economic environment and to meet unforeseeable spending pressures (Budget Review, 2014).

markedly lower than Budget 2013. MTBPS 2014 continues with this trend, at least in the first two years of the 2015 MTEF period. However by 2017/18, the amount set aside grows to R45 billion (see Table 5). Government has noted that these funds are to serve as a fiscal buffer in the years ahead. The Commission had at the time Budget 2014 was tabled, raised concern around the danger of excessive drawdowns on this resource and in so doing creating a risk of having too low reserves should an emergency situation arise. The maintenance of this fiscal buffer is therefore welcomed, particularly in the unstable economic environment.

Table 5. Adjustments to the unallocated reserves, 2013/14-2017/18

R' billion	2013/14	2014/15	2015/16	2016/17	2017/18
Budget 2013	4.0	6.5	10.0		
MTBPS 2013		3.0	6.0	18.0	
Budget 2014		3.0	6.0	18.0	
MTBPS 2014			5.0	15.0	45.0

Source: Budget Review (2013; 2014); MTBPS (2013, 2014).

3.20. Projected growth in government expenditure has been revised downwards. In particular, growth in real, non-interest expenditure, which at the time of Budget 2014, was projected to average out at 2% per annum over the next three years, has been revised, as per the 2014 MTBPS, to below 1.5%.

3.21. Table 6 reports real growth of expenditure components from 2013/14 up until the end of the 2015 MTEF period, 2017/18. Over the period, real annual average growth has been highest in the local government and social infrastructure, social protection and post-school education and training sectors. This is in line with government's priorities around expanding access to basic services, job creation and maintaining the social wage.

3.22. Growth in the allocation to health slows to 3% and 2.9% in 2015/16 and 2016/17 respectively before strengthening to 4.1% by the end of the 2015 MTEF period. A reduction of 7.9% to the economic infrastructure and network regulations allocation in 2015/16 is cause for concern given that investment in economic infrastructure is vital to promote economic growth and development. However, this reduction is in all likelihood due to the stance taken by government that all economic infrastructure investments are to be financed from the balance sheets of state-owned companies. Real growth in the rural development and land reform component for 2015 is marginal at 0.2%. Given the re-opening of the land reform process and the additional resources that may be required to settle newly lodged claims, this level of growth is low. However government may be budgeting to settle any newly lodged claims during the two outer years of the 2015 MTEF period, as relatively strong real growth of 4.6% and 3.2% is projected for 2016/17 and 2017/18 respectively.

Table 6. Real growth of expenditure components by functional classification

	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17	2016/17-2017/18	Real Annual Average Growth 2015/16 - 2017/18
Basic education	**2.7%**	**3.8%**	**2.6%**	**3.4%**	**3.0%**
Health	**4.7%**	**3.0%**	**2.9%**	**4.1%**	**3.5%**
Defence, public order and safety	**2.8%**	**1.4%**	**2.9%**	**3.4%**	**3.1%**
Defence and state security	2.8%	1.2%	2.8%	3.0%	2.9%
Police services	2.2%	1.8%	2.6%	4.0%	3.3%
Law courts and prisons	4.4%	0.9%	3.6%	2.9%	3.2%
Post-school education and training	**0.5%**	**8.2%**	**5.6%**	**2.3%**	**4.0%**
Economic affairs	**6.8%**	**0.6%**	**4.4%**	**1.6%**	**3.0%**
Industrial development, trade and innovation	2.7%	3.8%	3.6%	-0.3%	1.6%
Employment, labour affairs and social security funds	14.9%	7.9%	4.4%	2.8%	3.6%
Economic infrastructure and network regulation	4.5%	-7.9%	5.3%	2.3%	3.7%
Local development and social infrastructure	**7.1%**	**9.7%**	**1.6%**	**3.2%**	**2.4%**
Housing development and social infrastructure	7.2%	10.9%	1.2%	3.2%	2.2%
Rural development and land reform	-0.4%	0.2%	4.6%	3.2%	3.9%
Arts, sport, recreation and culture	14.5%	-0.7%	6.7%	3.7%	5.2%
General public services	**2.2%**	**-1.2%**	**-3.6%**	**2.4%**	**-0.6%**
Social protection	**5.6%**	**4.6%**	**3.7%**	**3.8%**	**3.7%**
Consolidated expenditure	**5.0%**	**4.4%**	**3.9%**	**5.2%**	**4.5%**

Source: MTBPS 2014. Commission's calculations.

3.23. With respect to growth of functional categories over the 2015 MTEF period, the following is noted:

(a) The top functional categories driving growth in consolidated expenditure over the 2015 MTEF period, in order of highest real annual average growth, are: post-school education and training (4.0% per annum), rural development and land reform (3.9% per annum), social protection (3.7% per annum), economic infrastructure and network regulation (3.7% per annum), employment, labour affairs and social security funds (3.6% per annum) and health (3.5% per annum). The areas illustrating the strongest real growth rates are aligned to the economic and social development objectives contained in the MTSF and NDP.

(b) Expenditure categories illustrating relatively slower real growth over the 2015 MTEF are general public services, which is projected to decline by a real annual average of 0.6% over the next three years. Given the potential that investment in research and development can play in facilitating greater innovation, productivity and economic growth, government should take care to ensure that real growth in respect of the industrial development, trade and innovation expenditure category, is not weakened over the medium term.

3.24. Table 7 provides details on the economic classification of consolidated government expenditure. Over the period reviewed (2013/14 to 2017/18), payments for capital assets records the highest real annual average growth rate (at 5.1%). Disaggregating this average growth to real year on year growth the following trends are notable:

(a) Real growth of compensation of employees is projected to slow from 4.4% in 2014/15 to 3.5% in 2015/16 – this level of growth is to be maintained over the 2015 MTEF period. Maintaining moderate growth of the wage bill is a key pillar with respect to government's plans to ensure fiscal stability. Measures that will be effected are: freezing of all national department posts and a review of funding for vacant posts. Despite all the measures to curtail the growth of the wage bill, the fact that the wage bill of government is still showing a real growth over the medium term suggests government is still struggling to bring the wage bill under control. The challenge in restraining growth in this component was clearly illustrated during the previous three year period, where compensation of employees rose significantly by 27.4% - achieving the proposed lower growth of 21.1% over the coming three years will require massive restraint. The Commission has noted previously that wage increases should be linked to productivity. There is also a need to standardize wage scales across government to achieve fairness in the public officials' earnings. For example, Chief Executive Officers (CEOs) from some public entities are earning more than others while the earnings of Municipal Managers also differ across municipalities. This does not detract from the consideration that entities and municipalities vary in terms of size and skills and qualifications required to occupy senior positions.

(b) In line with the push to contain spending on goods and services, growth of this component slows down markedly over the 2015 and 2016 financial years. Whereas growth in this component reached 3% in real terms in 2014, growth is not projected to reach 1% in both 2015 and 2016.

(c) Allocations in respect of transfers and subsidies will grow from 4.8% in 2014 to a strong 6.1% in 2015, before slowing significantly to 2.3% towards the end of the 2015 MTEF period. Growth in this item is largely in respect of transfers to households and subnational government.

3.25. Allocations in respect of capital show the strongest real average growth over the period particularly when compared to growth in current expenditure[11]. Over the 2015 MTEF period, growth in capital-related allocations range from 4.9% in 2015, down to 2.9% in 2016 before recovering to 4% by 2017. Given government's adoption of infrastructure-led growth, these trends are welcomed.

Table 7. Real growth of consolidated government expenditure by economic classification

R' billion	2013/14	2014/15	2015/16	2016/17	2017/18	Real Annual Average Growth Rate
Compensation of employees	407.6	440.7	470.6	501.8	533.5	3.6%
Goods and services	177.8	189.5	193.8	200.2	213.0	3.7%
Transfers and subsidies	370.3	402.0	440.2	470.8	495.1	4.3%
Payments for capital assets	80.3	90.2	97.7	103.6	110.6	5.1%
Real Year on Year Growth (%)		**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**	**2016/17-2017/18**	
Compensation of employees		4.4%	3.5%	3.6%	3.5%	
Goods and services		2.9%	-0.9%	0.4%	3.5%	
Transfers and subsidies		4.8%	6.1%	3.9%	2.3%	
Payments for capital assets		8.5%	4.9%	2.9%	4.0%	

Source: MTBPS, 2014. Commission's calculations.

3.26. **Housing Development and Social Infrastructure:**

(a) The Commission welcomes the strong priority attached to funding for housing and accompanying basic infrastructure such as electricity, water, sanitation – this is proof of a more focused approach to attaining more sustainable human settlements. Over the 2015 MTEF period, R564.9 billion is allocated in respect of housing development and social infrastructure. Between 2014 and 2015,

[11]Current expenditure is comprised of compensation of employees, goods and services and interest and rent on land.

allocations in respect of this functional area are set to grow by a real rate of 10.9%.Strengthening resource allocations in respect of housing and basic services whilst welcomed is one part of the challenge. The other dimension relates to effective spending of increased resources. Roll-out of infrastructure, particularly at the local level, has been a challenge. Likewise, adequately maintaining and repairing infrastructure once established has been a concern at the local government level. The Commission is of the view that allocating money in the absence of technical support to municipalities to assist either with roll-out of new infrastructure or care of existing assets, may result in potential benefits of infrastructure investment being foregone. As part of its Annual Submission for the 2014/15 Division of Revenue, the Commission made recommendations on how asset care at the local level can be improved – the suggested starting point is the need for legislation, similar to the 2008 Government Immovable Asset Management Act which regulates the management of immovable assets of national and provincial governments - however no corresponding legislation applies in local government.

3.27. **Education:**

(a) Generally education is a priority over the 2015 MTEF period with post-school education[12] and training in particular emphasised. Post-school education and training relates to funding for universities, colleges, sector education and training authorities and the National Skills Fund.

(b) Post-school education and training is set to receive around R300 billion over the 2015 MTEF period – R59.5 billion in 2015/16, 64.7 billion in 2016/17 and R68.1 billion in 2017/18. Just over half of this allocation is in respect of subsidies to universities and contributions to the National Students Financial Aid Scheme (NSFAS). The Commission welcomes the emphasis being placed on improving quality of education in the MTBPS. While the Commission agrees with the MTBPS that teacher training is critical, measures should also be taken against teachers who are absent from class without a valid explanation. Often teachers are engaged in work outside of school (e.g., appointed as mayor while still

[12]The term ***post-school*** is used to refer to all education for people who have left school as well as for those adults who have never been to school but require education opportunities (Green Paper for post-school education and training)

holding onto teaching jobs) which negatively impacts outcomes in the education sector.

(c) The Commission notes that from 2015/16, FET and adult education and training functions will be transferred from provincial to national government. The Commission also notes funding from the provincial equitable share and FET colleges grant will shift with the function. In its submission on the FET function shift in 2013, the Commission stated that once the function is shifted to national government, the baseline funding model should not perpetuate past underfunding in some of the provinces. The Commission advised that additional funding should be used to ensure a more equitable distribution of resources across provinces. The Commission also advised Government further during the migration process of the function.

3.28. **Health:**

(a) Just under 13% of the budget (excluding debt service costs) will be allocated in respect of health in 2015/16. Relative to 2014, real growth in the allocation to health will slow from 4.7% in 2014 to 3% in 2015 and 2.9% in 2016.

(b) Priority spending in health is related to expanding the provision of antiretroviral drugs – as a result the conditional grant through which this funding is channelled, is set to increase. At provincial level, spending is largely driven by employee costs that has seen compensation of employees growing by 10% per annum for the last three years. Given government’s broader plans around curtailing the growth in employee costs, this is a situation that will need to be turned around.

(c) The prioritisation of antiretroviral treatments proposed in this year’s MTBPS is in line with the recommendations and findings of the Commission from 2011 in the context of Millennium Development Goals (MDGs), as is Government’s continued emphasis on the need to achieve greater efficiencies and cost savings. While the Commission acknowledges these efforts, the significant resources in the health sector can also be put to more effective use by improving the overall efficiency in the system. In its 2015/16 Division of Revenue Submission, the

Commission recommended that wasteful expenditure should be identified, categorised (e.g. clinical waste, operational waste and behavioural waste) and addressed.

(d) The Commission notes the high level working group being established by the Minister of Health to look into the impact of the National Health Insurance (NHI) on the IGFR. While the NHI may lead to a significant reconfiguration of health functions in the system, it will be important for the working group to consult broadly with all relevant stakeholders so that the ramifications of any recommendations are fully understood.

3.29. **Job Creation and Social Protection:**

(a) Similar to the 2013 MTBPS, job creation initiatives remain a priority for government. Government's strategy to create jobs is multi-pronged and revolves around:

- Public Employment Programmes (Expanded Public Works Programmes (EPWP), Community Works Programme (CWP))
- Employment tax incentive
- Jobs Fund

(b) The Government Technical Advisory Centre (GTAC) has taken over the responsibility of managing the Jobs Fund from the Development Bank of South Africa. The Jobs Fund was launched in 2011 and aimed at providing once-off grant funding in the areas of enterprise development, infrastructure, support for work seekers and institutional capacity building. Matching grants are awarded based on competitive process. The Commission welcomes the new strategy, which intends to seek partnerships with larger intermediaries in order to scale up activities.

(c) The 2015 MTEF period sees efforts to protect and strengthen efforts to enhance job creation and maintain the social protection package growing the fastest and receiving proportionately more relative to other functional areas – employment, labour and social security projected to grow by a real annual average of 7.7% whilst social protection will grow by 4.4%.

(d) While the economy is creating jobs, a large share of these jobs are temporary in nature. For real disposable income of households to improve, the economy will need to create sustainable jobs at a pace that can absorb new entrants into the labour market. Existing structural impediments that have led to a decline in the labour intensity of production is partly a reflection of labour market challenges that government must address.

(e) The Commission welcomes the positive uptake on the employment tax incentive since the beginning of the financial year. The Commission would like to emphasize that the tax incentive grant should be aimed at creating 'new jobs' instead of jobs that would have been created irrespective of whether the incentive grant was available or not.

4. Review of Actual Spending by National Departments and Provincial Government – 1 April to 30 September 2014/15

4.1. Expenditure smoothing implies government spending that is evenly distributed through the four quarters of the financial year. If such smoothing were to occur, it would be expected that total expenditure up to September would be at 50% of the main budget. This would of course differ depending on whether a government program that the department is dealing with is recurrent or capital-expenditure driven. Expenditure smoothing would most likely lead to improved quality of spending and reduced level of unauthorised spending.

4.2. Table 8 shows aggregate spending and percentage spent six months into the 2014/15 financial year.

(a) Total government spending is slightly below the assumed norm of 50%. Spending by all votes is about 3% under the norm (R302.3 billion of the main budget). With respect to the PES, 50% of the total amount has been transferred to provinces.

(b) Using selected national departments that are key in driving government priorities (education, health) and key built environment programmes for example, transport, energy and water and sanitation, government has spent in accordance with the norm (50.2%). Notwithstanding overall positive performance, an assessment of individual departmental performance shows somewhat uneven spending patterns. On the one hand certain departments far exceed the norm (Higher Education and Training spent 74.3% of its budget) whereas others such as the Human Settlements and Water and Sanitation departments have recorded spending rates of below 40%. Excessive deviations below or above the norm is undesirable from an expenditure smoothing perspective. Unless a department's annual performance or strategic plan explicitly identifies under or over spending as a chosen spending profile, departments should attempt to remain within the confines of spending performance guidelines.

Table 8. Aggregate spending and deviation from the norm (April-September 2014)

R million	**2014/15**		
	Main budget	**Actual spending April to September**	**% Expenditure**
Total	1 142 562	551 703	48.3%
Total appropriation by vote	635 349	302 381	47.6%
Total direct charges against the National Revenue Fund	504 213	249 322	49.4%
General fuel levy	10 190	3 397	33.3%
Debt-service costs	114 901	56 563	49.2%
Provincial equitable share (National Treasury)	362 468	181 234	50.0%
Selected Key Budget Votes	**306 007**	**153 638**	**50.2%**
7 Public Works	6 121	3 014	49.2%
15 Basic Education	19 680	10 768	54.7%
16 Health	33 955	16 212	47.7%
17 Higher Education and Training	36 867	27 374	74.3%
21 Correctional Services	19 721	9 291	47.1%
25 Police	72 507	34 320	47.3%
26 Agriculture, Forestry and Fisheries	6 692	3 441	51.4%
28 Economic Development	697	318	45.7%
29 Energy	7 416	3 514	47.4%
31 Human Settlements	30 521	11 423	37.4%
33 Rural Development and Land Reform	9 455	4 459	47.2%
37 Transport	48 727	25 938	53.2%
42 Water and Sanitation	13 647	3 566	26.1%
Provincial Level	**454 511**	**220 195**	**48.4%**
Education	186 147	92 720	49.8%
Health	140 684	69 254	49.2%
Social Development	15 505	7 161	46.2%
Other	112 175	51 060	45.5%

Source: MTBPS 2014, Commission's calculations.

4.3. With respect to the key provincial competencies of education and health, provinces have spent in line with the norm. At the time of the 2013 MTBPS, social development spent 4.6% below the norm. This year spending performance is 3.8% below the 50% norm.

4.4. Education and health are functions that are labour intensive in nature, hence recurrent expenditure forms the bulk of the education and health budgets. Of critical importance in terms of spending performance is to ensure the wage agreements that are taking place are kept within agreed limits so that fiscal targets are achieved. The Commission welcomes the decision taken by government to review personnel budgets in the education sector to ensure they reflect medium term spending estimates. At the time of the 2013 MTBPS, spending by education and health in the provinces were 50.5% and 50% respectively. Both departments have therefore managed to marginally reduce spending compared to the 2013 MTBPS.

5. Adjustment Estimates 2014/15

5.1. Annually government makes adjustments to the main, approved budget passed in February. These are expenditures that cannot be planned for in the beginning of the financial year. These adjustments are meant to cater for unforeseen and unavoidable expenditure. Generally expenditure requirements may be the result of an in-year rise in inflation, reimbursements to sub-national governments for the shortfalls in the agreed to salary adjustments for public servants or for refunding sub-nationals that experienced nationally declared natural disasters. Adjustments made for 2014/15 amount to R1.3 billion. The adjustments are funded through the R3 billion unallocated reserves set aside in 2014.

5.2. The largest category of adjustments (R789.6 million) are with respect to unforeseeable and unavoidable expenditure. The following is noted:

(a) R350 million incurred by International Relations and Cooperation due to the impact of depreciation of the Rand on foreign currency denominated expenditure,

(b) R156.9 million incurred by Cooperative Governance and Traditional Affairs due to repair of infrastructure damaged by disasters. The Commission welcomes the R156 million made available for post-disaster reconstruction and the rehabilitation of infrastructure in Eastern Cape, Gauteng, KwaZulu-Natal Limpopo, Mpumalanga and the Western Cape. Government should be commended for its agile responsiveness in making funding available for immediate cost of disaster incurred by provinces and municipalities through a special conditional grant. The Commission remains convinced that the long term solution should be development of an integrated approach to disaster risks management. In particular government needs to encourage and incentivise where appropriate the use of innovative market based financing for disaster relief and recovery (for example, risk pooling, reinsurance, derivatives, and micro-insurance and catastrophe bonds).

(c) R63.1 million incurred by Public Enterprises due to government indemnity provided to Denel Aerostructures for the ninth claim submitted for damages/losses in respect of the A400M military aircraft contracts,

(d) R57.7 million incurred due to the reorganisation of national departments as announced in May 2014 (R33.7 million for establishment of the Department of Small Business Development, R12 million for the establishment of the Environmental Affairs ministry and deputy ministry and R12 million in respect of the establishment of the Communications ministry and deputy ministry).As advised in its submission on the 2014 Appropriation Bill, the Commission welcomes the approach of waiting for the Adjustments Bill to effect changes required as a result of the reorganisation of national departments.

(e) R34.6 million incurred by Water and Sanitation due to emergency national government interventions in respect of Lekwa-Teamane local municipality as a result of maintenance and operations of the waste water treatment and bulk water treatment plants.

5.3. Declared unspent funds amounted to R1 billion of which the bulk refers to underspending on programmes aimed at job creation (R561 million unspent on Employment Creation Facility) and economic development (R79 million underspent on tourism incentive grant). While it makes sense to reallocate funds where it is not spent, resources taken away from programmes aimed at stimulating economic growth undermines government's efforts to kick-start the economy. There is also a R250 million decrease in respect of social grant payment estimates. The decrease is as a result of lower uptake on the old age grant due to new means test adjustment. Government has also projected a R3.65 billion underspending by national government.

5.4. The adjustments budget makes provision amounting to R157.7 million for roll-overs. The Commission welcomes the continued reduction in roll-overs that began with the 2013 MTBPS where the amount of roll-overs was reduced from R1.5 billion (2012) to R894 million. The sustained reduction in roll-overs suggests that government is exercising stricter controls with respect to monitoring expenditure and roll-over requests.

5.5. Whilst declining significantly compared to the 2013 MTBPS, two departments continue to dominate requests for roll-overs, namely Water and Sanitation (formerly Water Affairs) and Cooperative Governance.

5.6. Between 2010 and 2012, Rural Development and Land Reform, Health and Human Settlements recorded high roll-overs. However these departments have since reduced their roll-overs to zero.

Table 9. Roll-overs of selected national votes, 2010/11 - 2014/15

R'million	**2010 MTBPS**	**2011 MTBPS**	**2012 MTBPS**	**2013 MTBPS**	**2014 MTBPS**	**TOTAL**
Total	3737	1789	1506	894	157.7	8083.7
Selected Budget Votes						
Cooperative Governance	430.8	5.6	139.5	72	80.2	728.1
Public Works	120	0	87.1	0	0	207.1
Basic Education	1	29.9	104.7	14.7	9.7	160
Health	49.8	231.3	87.2	22.2	0	390.5
Social Development	0	0	0	0	10.5	10.5
Agriculture, Forestry and Fisheries	15.6	37.5	68.2	0	0	121.3
Communication	19.8	112.2	0	0	0	132
Energy	61	88.2	25.8	28.1	18.9	222
Human Settlements	82.7	64.6	13.5	120.5	0	281.3
Rural Development and Land Reform	495.7	0	96	0	0	591.7
Water Affairs/Water and Sanitation	79	145.8	416.6	188	28.7	858.1

Source: Adjusted Estimates of National Expenditure, 2010, 2011, 2012, 2013, 2014. Commission's calculations.

6. CONCLUSION

6.1 In May 2014, the Commission tabled at Parliament its Annual Submission for the 2015/16 Division of Revenue. Under the theme of "balancing fiscal sustainability with socio-economic impact", the Submission agrees in most aspects with the 2014 MTBPS that has been crafted in a constrained environment characterised by downward economic growth forecasts. Bearing this in mind, Government has done a good job that promises a deficit reduction programme for the next three years and thereby prevents public debt from spiralling out of control.

6.2 Overall, the 2014 MTBPS re-affirms and reflects the major thrust and spirit of the recommendations that the Commission has been making since the onset of the global economic crisis: that growth and employment in South Africa can only be achieved by combining fiscal consolidation and investment into future growth given the prevailing economic climate.

6.2.1 The Commission welcomes the position in the MTBPS of emphasising the need to get value for money from Government programmes.

6.2.2 Given the current negative economic outlook, the Commission also welcomes government's position on fiscal consolidation and tightening measures to maintain expenditure sustainability.

6.2.3 To enhance growth and employment, Government should continue re-directing government spending towards activities that directly or indirectly create jobs through enhancing productivity performance. The emphasis on education as the number one priority is commendable in this effort towards productivity improvements. The Commission also welcomes the strong growth in allocations to capital compared to current expenditures.

6.2.4 Given the tight fiscal framework, the Commission commends efforts by Government to protect conditional grants, which are fundamental in maintaining and improving service delivery to communities. The Commission supports the proposed review of conditional grants, addressing identified weaknesses it has raised in the past and will continue engaging with government and other stakeholders in the exercise.

6.3 The Commission is in agreement with the proposed adjustments estimates and alerts Parliament to some of the issues that are raised in this submission.

6.4 Government should review the Provincial Government Fiscal Framework with a view to ensuring its long term viability.

6.5 Finally, what is very clear is that the economy remains far below the economic growth rates required to make the dent on unemployment and inequality. Rebuilding state capabilities should continue to be prioritised with efforts aimed at both economic and social capabilities for citizens and infrastructure and how these will be managed within the context of current consolidation measures. In this regard, much more still needs to be done to implement the NDP and the MTSF.

For and on behalf of the Financial and Fiscal Commission

Mr Bongani Khumalo

Acting Chairperson/CE