Media Release

SUBMISSION FOR THE 2014-15 DIVISION OF REVENUE

27 May 2013

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For an Equitable Sharing of National Revenue

[**27 May 2013, Cape Town**] On 24 May, the Financial and Fiscal Commission (the Commission) tabled at Parliament its Annual Submission for the Division of Revenue 2014/2015. The Submission is made in terms of section 214(1) of the Constitution of the Republic of South Africa (1996), section 9 of the Intergovernmental Fiscal Relations Act of 1999 and section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). Established in 1994 by the Constitution of South Africa, the Commission provides information to all organs of state to help them make informed decisions about complex fiscal issues. In this respect, this Submission is part of the Commission's constitutionally defined processes. This year's Submission seeks to contribute to ongoing efforts to implement the National Development Plan (NDP) Vision 2030, of eliminating poverty and reducing inequality by 2030. It addresses one of the critical issues that deserve urgent attention in South Africa today: the role that the intergovernmental fiscal relations (IGFR) system can play in helping the country meet its social and economic challenges.

South Africa's good fiscal management reputation was built over a long period and came to the fore in the aftermath of the global economic and financial crisis of 2008–2009. Unlike many other industrial countries, South Africa managed to avoid a fiscal crisis and retain a reasonable level of government debt during the downturn, with a ratio of public debt to GDP of 40% – compared to 80–100% in other advanced economies. However, long-term interest rates in South Africa are 7%, compared to 5% in most advanced economies. So, while South Africa's proportion of debt may be less, the government's debt-servicing burden is not much lower than in advanced economies. The challenge that has attracted attention about the fiscal situation domestically has been not its absolute level, but rather the direction. In which it is going.

The Commission believes the two main causes of the sharp increase in the level of public debt to GDP in recent years are:

1. The effect of the global financial crisis of 2008/09: South Africa experiencing a recession in 2009 when GDP growth was -1.5%. As a result, tax revenues were lower than budgeted for.
2. The increased public sector wage bill: between 2008/09 and 2011/12, remuneration in the public sector grew by an average of 8.3% per annum. This was due to above-inflation salary increases and a substantial expansion of the public service, at a time when private sector employment was stagnant.

In addition to this, South Africa has to cope with enormous socio-political pressures on the national budget. Despite substantial efforts by Government since 1994, inequality has risen, while poverty has fallen only marginally since 2000. Disillusionment with upward trends in inequality amidst mild positive economic growth has led to renewed interest in the relationship between macro (growth) and micro (poverty and distribution) issues. Government economic programmes and policies are emphasising more strongly than before the dual objective of accelerating economic growth and fighting poverty and unequal access to opportunities. Given the high inequality, and poverty incidence and depth, in a constrained fiscal environment, what can be done to improve the situation?

Under the theme of "*Fiscal Levers for National Development*", the Submission identifies fiscal levers (public resources) and other measures that can result in a well-functioning fiscal and financial system that promotes development. The Commission is of the view that fiscal consolidation is necessary and cannot be deferred, in the hope of a possible global economic upswing. However, fiscal consolidation should not mean having to reduce the social spending that cushions the most vulnerable groups, especially children. By using its fiscal levers strategically to pursue growth-friendly fiscal consolidation in the short term, while maintaining current levels of social spending, Government can lay the foundations for future long-term growth. Powers are increasingly devolved to the sub-national governments, in search of the "economic efficiency dividend" associated with decentralising authority and resources to bring government closer to its citizens. An important aspect of this process is that high levels of inefficiency in the use of resources by all spheres of government need to be curtailed as they crate breeding ground for all manner of abuse of state resources including corruption and fruitless expenditures. This Submission looks at some potentially potent national, provincial and local levers that can be used to spur economic and social development.
Government can use its public resources sparingly and efficiently, not only to create an ideal child-support system but also to lay the foundations for future growth and development by fixing Further Education Training colleges and investing in higher education research. Levers in the form of transfers to provincial and local government can also enable these sub- national government spheres to play a central role in countering the three major challenges facing the country – unemployment, poverty and inequality – while encouraging economic growth and overall national development.

The Commission's recommendations for the 2014/15 Division of Revenue cover:

- Fiscal consolidation, and balancing growth and socioeconomic rights,
- The social and economic value of social grants,
- Funding of FET colleges and research in higher education,
- The proliferation of conditional grants,
- Improving provincial fiscal performance,
- Managing the provincial wage bill,
- Devolution of public transport functions,
- Effective intergovernmental planning and budgeting,
- Detecting fiscal distress in local government,
- Performance-based grants
- Water and electricity distribution infrastructure, and
- Developing rural fiscal capacity.

It is important that in order for all the proposed measures in the Commission's submission to bear fruit, government needs to tighten its accountability framework to ensure that state resources are utilised in a manner that is consistent with the prescripts of the laws of the
Country

To read the entire report, go to [http://www.ffc.co.za/]
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Thank You