



***Financial and Fiscal Commission
Submission for the Division of
Revenue Bill 2010***

Thursday 18th February 2010

I. Introduction

- Submission made in terms of Section 214(2) of Constitution and S9 of IGFR Act (1997)

The submission is divided into three parts, focussing on the following:

1. the Commission's response to the various clauses contained in the Bill
2. the Commission's comments on the fiscal framework, and
3. the Commission's views on the Government's response to the recommendations on the 2010 Division of Revenue.

2. Comprehensive review of clauses contained in the DORB

- Objects of the Bill –
 - ✓ A strategic document that links priorities with outcomes
- Last year the FFC raised a concern that the Bill was becoming increasingly complex, voluminous, and too wide-ranging on the issues it covers, thus losing strategic focus
 - This year the Bill, is more streamlined with a reduction in the number of clauses
- FFC and NT have agreed that the Commission leads a comprehensive review of the Bill for 2011 DoR

3. Comments on the 2010 fiscal framework

- Five key priorities underlie government policy over the MTEF namely:
 1. Improvement in education and skills development
 2. Enhancing the quality of health care
 3. Fight against crime and corruption
 4. Employment creation and
 5. Rolling out a comprehensive rural development strategy

- Need to strengthen intergovernmental structures for coordination with respect to priority areas 4 and 5

3. Comments on the 2010 fiscal framework

- The Commission acknowledges that this budget is crafted against an environment of a global recession versus the need to attain government priorities.
- ✓ Focus of Commission work for the 2011 division of revenue, is on investigating measures that could assist in the cushioning of the impact of similar recessions while at the same time preparing the country for future growth through the division of revenue process

3. Comments on the 2010 fiscal framework

- For the 2010 Budget, R112 billion added to fiscus to fund priorities – the bulk of this goes to national
- With respect to division of revenue amongst the three spheres, the Commission notes the following:
 - ✓ local government sphere receives the smallest share of total revenue relative to the other two spheres, but exhibits the fastest growth
 - ✓ with respect to provinces, conditional grant allocations grow faster than allocations made via the provincial equitable share
- The Commission notes increase in debt service cost relative to other items on the budget – also increase in public sector wage bill
 - ✓ If debt service costs are driven by personnel increases, this trend must be reversed in the medium term

3.1. Comments on the National Allocations

- Additions to the national sphere are in respect of:
 - ✓ new defence force remuneration system,
 - ✓ the Occupation Specific Dispensation (OSD) for Correctional Services and
 - ✓ additional policing personnel under the area of Justice, Crime Prevention and Policing

- Additional R3.7 billion to drive nationally managed employment creation initiatives (includes the textile sector, an automotive production incentive and bio-security)

3.2. Comments on Provincial Allocations

- Bulk of adjustment to PES, earmarked for personnel cost increases:
 - What is the impact on quality of services relative to other non-personnel expenditure items e.g. teacher training

- Commission welcomes the data update to the PES
 - Impact of re-demarcation on provincial equitable share
 - Caution government against risk of increasing demand for bail-out money in cases of boundary changes
 - A need to create better incentives for sub-national government adjustment e.g. through better structured transitional transfers

3.2. Comments on Provincial Allocations

- New conditional grants introduced, this includes:
 - ✓ Secondary School Recapitalisation Grant
 - ✓ Dinaledi Schools Grant
 - ✓ FET
 - The Commission is currently reviewing the whole system of conditional grants and will be making recommendations in the submission for the 2011 Division of Revenue

3.3. Comments on Local Government Allocations

- With respect to Local Government – two key issues of concern:
 - ✓ 2001 Census data now very dated: Option of updating LES with Community Survey data explored however degree of error on the survey too large. This raises question of current design of LES
 - ✓ Revenue Raising Component potentially unconstitutional:
 - ✓ Effect of this component is that it takes away money on the basis of what municipalities can raise, which is contrary to Section 227(2) of the Constitution which states that additional revenue raised by municipalities may not be deducted from share of revenue raised nationally or from other allocations made to them out of national government revenue

3.3. Comments on Local Government Allocations

- Increase to LES for expansion of basic services and assisting municipalities in dealing with increase in cost of purchasing bulk electricity
- Effect of policy stalling on service delivery – example of EDI restructuring and Housing Accreditation for Municipalities
 - ✓ The Commission recommends that Government put explicit timelines to these processes so as to ensure certainty and movement on these issues
- Key developments with respect to local government conditional grants include the discontinuation of three grants and the introduction of one new grant.
- A need for a proper entry, management and phasing out strategy for grants
 - Exit review of 3 discontinued grants
 - ✓ Backlogs in Water and Sanitation at Schools and Clinics
 - ✓ Backlogs in the Electrification of Clinics and Schools Grant
 - ✓ Electricity Demand Side Management (very recently introduced)
 - Independent Mid term grant performance reviews

4. Commission reaction to government response to 2010 Division of Revenue recommendations

- Generally positive response noted and welcomed.
 - ✓ Some recommendations consistent with the direction signaled by the budget as tabled, eg infrastructure allocations on basic services, increases in social grants to cushion the poor, etc
 - ✓ Other recommendations to be followed up in phases, e.g. review of the PES formula and regulating water services
- Commission committed to ongoing improvement to relevance and quality of its recommendations
 - ✓ In this respect, further consultations and discussions will be taking place between the National Treasury in particular and government in general on how to take forward some of the recommendations

THANK YOU