



Financial and Fiscal Commission Submission on the 2011 Division of Revenue Bill

24 February 2011

1. Introduction

- Submission made in terms of Chapter 13, Section 214 (2) and Section 9 of the IGFR Act (1997)
- Layout of the Submission
 1. Key strategic issues around the Division of Revenue Bill for the Commission and Government's consideration.
 2. Provincial and local government sectoral challenges
 3. Provincial and Local Equitable Share
 4. Comment on Government's response to FFC recommendations
 5. Conclusion

2.1 Sectoral Challenges in Provinces

- FFC recommendations in the past have emphasised protection of soft targets in health and education budgets, improvements in quality of service and efficient management
 - Overspending of health and education budgets constitute a major concern
 - Not leading to better outputs
 - Diverting resources away from other priorities
 - Questionable that Special Purpose Vehicles are solutions to service delivery failure – evaluate SASSA, NHDA, EDIH
- Need to reinforce basics of public service administration as a matter of urgency

2.2 Vibrant Built Environment

- Massive opportunity for urban development through infrastructure funding injections and reviewed conditional grants
 - Housing and basic services
 - Public Transport and connectivity
 - Jobs, investment and enterprise
- Alternative policy responses
 - Review urban transport funding model – own revenues, user pay and transfers
 - Fast track accreditation, standards compliance and monitoring and land provision
 - Maintain financial health of municipalities

2.3 Municipal Own Revenue and Fiscal Decentralisation

- Commission supports continued strengthening and increased taxation powers towards municipalities
 - However there is need to maximise existing revenue instruments
 - The outcome of increasing the tax burden on communities, should not compensate for poor debt recovery by municipalities
 - Where collection is satisfactory new revenue sources like local business tax are encouraged
 - There is a need for government to conduct thorough impact assessment of all proposed amendments to the Municipal Property Rates Act prior to legislating any changes

3. Provincial and Local Equitable Share

- Comprehensive review of PES commenced in 2007
- 2011 Division of Revenue Bill reflects government's intention to implement substantial changes to PES formula for 2011 MTEF
 - Work done by Government on health component reform very comprehensive and in right direction
 - Other proposals made include education financing and changes to weights
 - Commission will continue with its own research work on the formula to align with changed service delivery arrangements especially concurrent functions
- Commission welcomes that only formula weights used when deciding additional allocations during Adjustment of Estimates
- Planned changes to LES formula and its medium term review noted and Commission will participate in technical reviews

4. Government's Response to Commission Recommendations

- On fiscal consolidation and independent expenditure reviews
 - Welcomes government response
- On review of LES
 - Reiterates that RRC may expose government to unwarranted litigation but supports Government's prioritisation of reforming the component this year
- On EDI restructuring
 - Recommendation was not just about EDI
 - Broader regionalisation of basic services delivery (e.g. water services)
 - Response is inadequate

5. Conclusion

- 2011 Division of Revenue Bill welcomed
- Health and Education Budgets overspend a grave concern
- Vibrant built environment constitutes a massive opportunity for fast tracking service delivery
- PES and LES comprehensive review constitutes ongoing work
- Commission appreciates robust engagements with all spheres of government and the commission will intensify its stakeholder engagement process in order to get to grips with the impact of the allocations made through DoRA