



BRIEFING TO THE STANDING AND SELECT
COMMITTEES OF APPROPRIATIONS ON THE
2012 DIVISION OF REVENUE BILL

28 February 2012

For an Equitable Sharing of National Revenue

OUTLINE

- Submission made in terms of Chapter 13, Section 214 (2) and Section 9 of the IGFR Act (1997)
- Layout of the Submission
 1. Comments on the 2012 division of revenue bill
 2. Division of revenue
 3. A closer look at sub national government fiscal frameworks
 4. Government response to the commission's recommendations
 5. Concluding remarks

COMMENTS ON THE 2012 DIVISION OF REVENUE BILL

- Chapter 3 (15) {3}[b] of the Bill requires parliament to be consulted on any amendments to conditional grants framework prior to publishing of a government gazette of allocations
 - The problems this intervention tries to solve are symptomatic of poor grant design that requires serious attention
 - Where the problem is not with grant design, the extent of materiality of proposed change should be considered
 - Parliament's intervention should only come in cases of chronic serial failures

DIVISION OF REVENUE 2012 MTEF

R million	2011/12 Revised estimate	2012/13	2013/14	2014/15
		Medium-term estimates		
Division of available funds				
National departments	383 747	412 368	446 220	478 828
Provinces	362 626	384 487	411 092	437 004
Equitable share	291 736	309 057	328 921	349 351
Conditional grants	70 891	75 430	82 171	87 653
Gautrain loan				
Local government	68 180	77 342	83 858	90 707
Equitable share ¹	32 876	37 873	40 582	43 639
General fuel levy sharing with metropolitan municipalities	8 573	9 040	9 613	10 190
Conditional grants	26 732	30 429	33 663	36 878
Total	814 554	874 197	941 170	1 006 539
<i>Percentage shares</i>				
National departments	47.1%	47.2%	47.4%	47.6%
Provinces	44.5%	44.0%	43.7%	43.4%
Local government	8.4%	8.8%	8.9%	9.0%

FFC Briefing on the 2012 DOR Bill

DIVISION OF REVENUE

- Government continues to display commitment on to maintaining sound fiscal management
 - Of the R1.1-trillion tabled for 2012 financial year national receives 47.1%, provinces 44.5% and local government receives 8.4%
 - Excluding savings an additional amount available for sharing is R8.6 billion: Of which 47% for provinces, 3.6% for local government and 49.3% for national
 - Provincial allocations are revised upwards by R15-billion to the Provincial Equitable Share (PES) and R4.4-billion to conditional grants
 - Local government receives an additional R2.2-billion to its equitable share and R3.1-billion to conditional grants

DIVISION OF REVENUE..

- Considerable portion of the budget allocated to infrastructure and public sector wage bill and moderate decreases in state debt costs over the medium term
- In terms of the differences between the 2011 MTBPS and the 2012 Budget:
 - The revenue estimates are slightly higher in the budget with slight decreases in non-interest expenditure and state debt costs leading to a faster decrease in the budget deficit

SUB NATIONAL GOVERNMENT FISCAL FRAMEWORKS: PROVINCES

- Provinces received an additional allocation of R19.4 billion
 - Personnel costs remain a major concern seriously compromising future service delivery accounting for 70% of the R3.3 billion set aside in 2012/13
 - The EPWP grant has not succeeded in achieving initially intended goals within the specified time
- Section 100 interventions and absence of Regulatory Framework
 - FFC contribution- Provincial/Municipal Fiscal Distress Watch project

SUB NATIONAL GOVERNMENT FISCAL FRAMEWORKS: PROVINCES

- Provinces still exhibit over expenditure even after a R5.3 billion adjustment driven by personnel at 59.9%.
 - Government may need to undertake an audit exercise of all government employees to ensure that no funds are lost due to ‘ghost’ personnel or double payments
 - Human Resource management failures- appointing without approved budgets
 - Appropriate mix of skills- balance between front line and back office personnel
 - Quality of personnel – are the right skills deployed

SUB NATIONAL GOVERNMENT FISCAL FRAMEWORKS: LG

- Local government allocation increase by R5.3 billion over the MTEF period
 - R2.2 billion for the equitable share and R3.1 billion for conditional grants
 - Commission supports the principle of funding poor municipalities
 - Provided there is clear , objective, transparent and equitable framework
 - Commission supports the Infrastructure Skills Development Grant as an attempt to build the necessary capacity within local government

SUB NATIONAL GOVERNMENT FISCAL FRAMEWORKS: LG

- Continued poor expenditure on repairs and maintenance of existing municipal infrastructure
- Municipal Capacity – Cautiously welcomes establishment of MISA

GOVERNMENT RESPONSE TO THE COMMISSION'S RECOMMENDATIONS

- Government accepted most of the recommendations made by the Commission
 - Issues to be carried forward:
 - national and provincial treasuries' efforts to improve the credibility of municipal budgets through annual benchmarking exercises should continue to be supported
 - government should consider providing municipalities with a performance-based conditional grant
 - government should finalise the implementation of occupation specific dispensation and formalise the performance evaluation system
 - Commission recommended that increases in education spending should be directed towards investments that will have the biggest impact on quality
 - Notes climate change threats – but Commission will do more work

CONCLUDING REMARKS

- 2012 Division of Revenue Bill welcomed
- Personnel overspend a serious concern
- Need to review perennially non performing grants
- More rigorous processes for the design, introduction and phase out of grants
- Infrastructure investment will constitute a good opportunity for fast tracking job creation
 - Implementation support key to prevent under-spending