



BRIEFING TO THE STANDING AND SELECT
COMMITTEES ON APPROPRIATIONS ON THE
2013 DIVISION OF REVENUE BILL

06 March 2013

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 2013 division of revenue bill
 2. Division of revenue 2013 MTEF
 3. Provincial government fiscal framework
 4. Local government fiscal framework and LES review
 5. Government response to Commission recommendations
 6. Conclusion



GENERAL COMMENTS: 2013 DIVISION OF REVENUE BILL

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MAJOR ADDITIONS AND CHANGES TO THE BILL

- Provincial infrastructure conditional grant reforms and incentives
- Reforms to Health Infrastructure Grants and NHI Grant
- Assignment of function to administer national housing programmes to Metros
- Provision for funding of natural disasters
- Payment schedule with respect to schedule 6 grants (indirect grants)
- Local Government Equitable Share Formula Review



FINANCIAL
AND FISCAL
COMMISSION

NATIONAL FISCAL FRAMEWORK

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FISCAL FRAMEWORK

- The 2013 budget makes lower additions to baseline compared to 2012 budget
 - Total budget increases by 2.7% [from R878 billion in 2012 to R951 billion in 2013 or 2.5% over MTEF]
 - Commission welcomes the decision to keep expenditure growth rate below GDP growth rate
- LG allocations share grows at a higher rate of 5% over MTEF compared to other spheres

DIVISION OF REVENUE 2013 MTEF

R billion	2012/13	2013/14	2014/15
National allocations	413.1	452.5	489.5
Provincial allocations	388.5	414.2	441.7
<i>Equitable share</i>	313.0	337.6	359.9
<i>Conditional grants</i>	75.5	76.6	81.8
Local government allocations	77.0	84.7	91.6
Total allocations	878.6	951.3	1 022.8
Changes to baseline			
National allocations	0.7	6.3	10.6
Provincial allocations	4.0	3.1	4.7
<i>Equitable share</i>	4.0	8.7	10.6
<i>Conditional grants</i>	0.1	-5.6	-5.9
Local government allocations	–	1.0	1.0
Total	4.8	10.4	16.4
Percentage shares			
National departments	50%	48%	47%
Provinces	43%	44%	45%
Local government	8%	8%	8%



PROVINCIAL GOVERNMENT FISCAL FRAMEWORK

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PROVINCIAL FISCAL FRAMEWORK

- The 2013/14 provincial fiscal framework [inclusive of conditional grants] is revised upwards by R25.6 billion over the 2013 MTEF
- If property rates grant is included, the PES amounts to R337 billion in 2013/14 reaching R383 billion in 2015/16
- The 2013/14 PES formula is adjusted to account for 2011 census data
 - Update sees significant downward PES shifts for KZN, Limpopo, Eastern Cape and Free State
- R4. 2 billion over MTEF to cushion impact of changes

PROVINCIAL CONDITIONAL GRANT ISSUES

- Provincial conditional grant baseline for 2013/14 is revised downwards from R82.2 billion to R77.9 billion
 - FET function shift and devolution of property rates
 - R260 million additions to baseline for roads maintenance grant and Further Education and Training (FET) colleges grants
- Growth in conditional grant allocations recovers in outer years with a proposed addition of R9 billion [or average growth of 7%] over 2013 MTEF

PROVINCIAL CONDITIONAL GRANT ISSUES CONT...

- Commission welcomes consolidation of health infrastructure grants
 - Consolidation will likely produce desired outcomes if it allows provinces flexibility to prioritise specific health infrastructure needs within the consolidated grant
 - Two of the three consolidated grants are less than two years old
 - Average spending performance on health revitalisation grant has been 80%
 - Urgent intervention to address low spending on NHI pilots grants required

PROVINCIAL SECTOR SPECIFIC ALLOCATIONS

- Education
 - The MTEF allocation for education increases from R225 billion in 2013/14 to R258 billion in 2015/16
- Health
 - The allocation for health increases marginally over the MTEF at 0.34% annually
- Social development
 - The baseline allocation for social development increases from R171 billion in 2013/14 to R200 billion in 2015/16
- Serious concern over under-funding of NPOs



LOCAL GOVERNMENT FISCAL FRAMEWORK AND REVIEW OF THE LES FORMULA

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LOCAL GOVERNMENT FISCAL FRAMEWORK

- The local government sphere receives R277 billion over the 2013 MTEF
- Additions to baseline allocations amount to R12 billion over the MTEF
- Commission welcomes Government plans to comprehensively review the local government conditional grant system
 - There is a pressing need for rationalising conditional grants

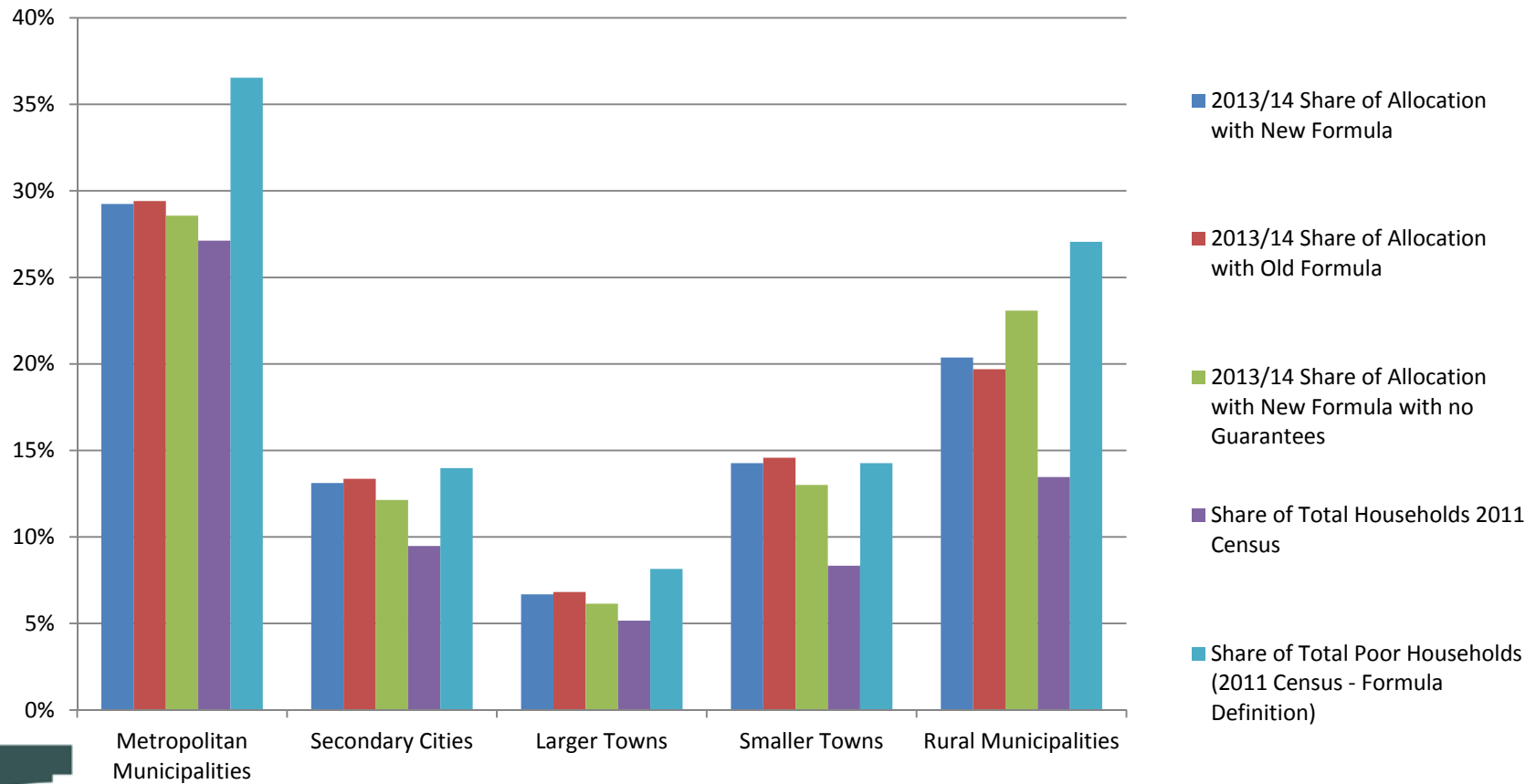
LOCAL GOVERNMENT CONDITIONAL GRANTS

- Local government receives four new conditional grants in 2013
- The RHIG has been converted into a direct transfer to municipalities
 - Efforts required to improve spending and reporting on performance
- Over R2 billion is deducted from MIG over MTEF towards the municipal water infrastructure grant
 - Increases funding alignment to functional authority
- May create unintended overlaps

LOCAL EQUITABLE SHARE FORMULA REVIEW

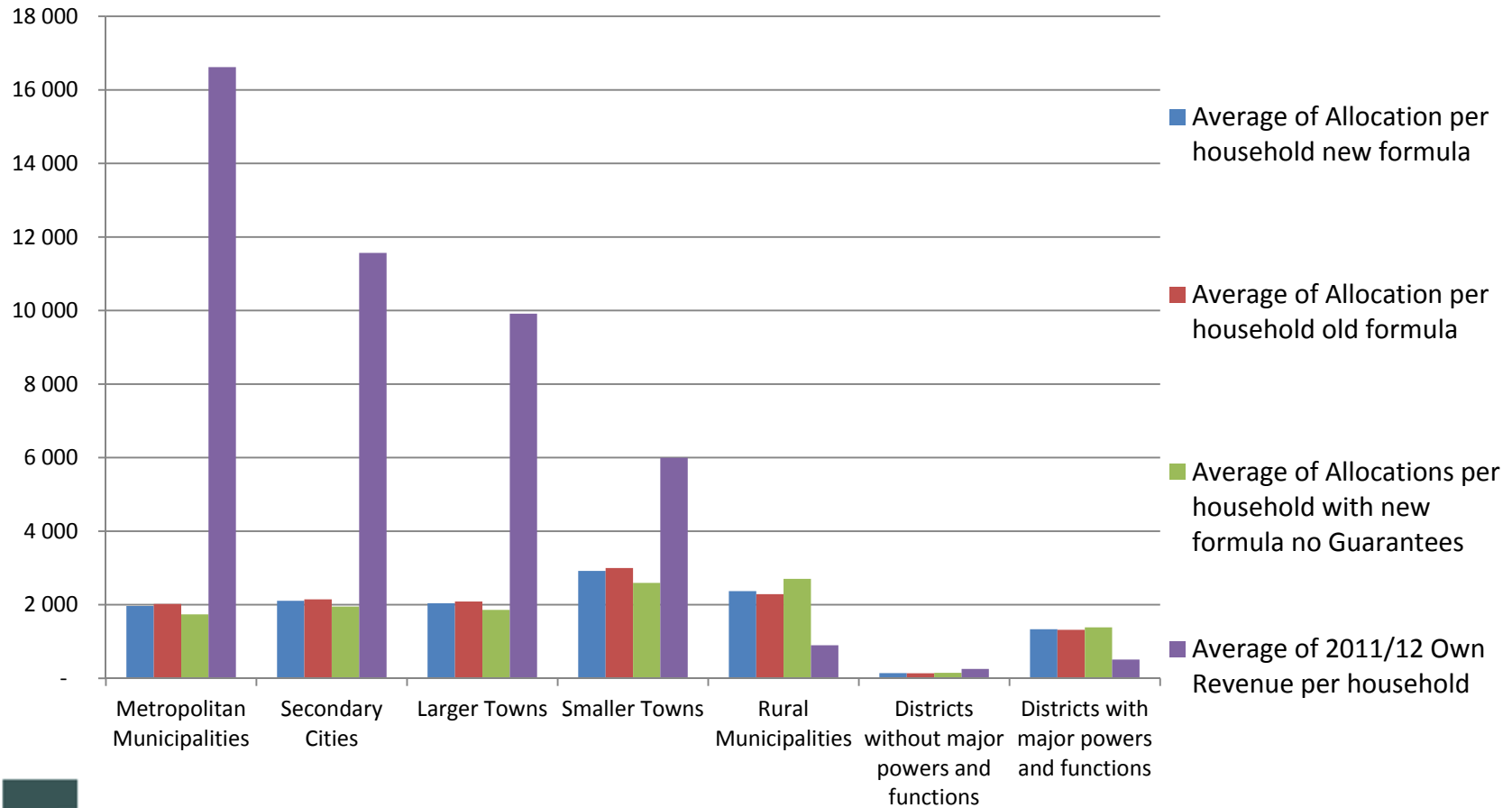
- Commission welcomes the new LES formula
- The process of reviewing the formula was highly consultative
- New formula takes into account previous recommendations made by the Commission
- Commission especially welcomes greater resource distribution towards poorly resourced municipalities through the new LES formula
 - Metros and rural municipalities account for 52% of LES allocations

COMPARISON OF OLD TO NEW LES ALLOCATIONS



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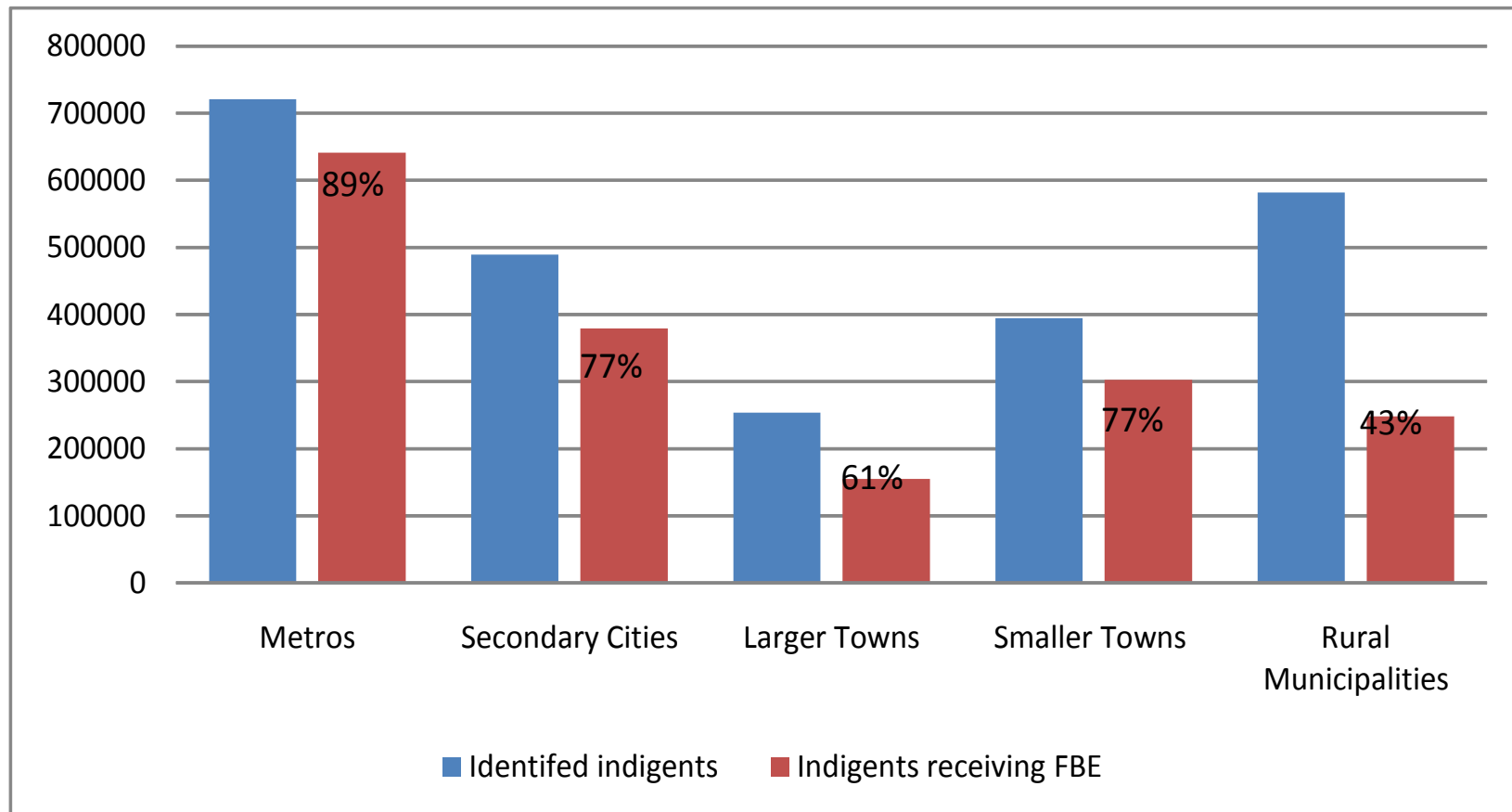
OLD AND NEW LES ALLOCATIONS PER HOUSEHOLD



BUILDING CAPACITY TO ABSORB LES ALLOCATIONS

- Increased LES allocations to rural municipalities should be accompanied by concerted efforts to absorb the funds
 - 56% of rural municipalities gaining from LES obtained a disclaimer from AG
- National and provincial government to use existing support mechanisms such as (MISA) and Local Government Turnaround Strategy to provide comprehensive support
 - Where necessary section 139 and 216 to be invoked

FREE BASIC SERVICES COVERAGE



IMPLEMENTATION OF CHANGES TO LES FORMULA

- Commission strongly supports the proposed 5-year phasing-in approach to avoid systematic shocks
- The 5 year window period must be used to build capacity and to absorb new resources especially in low capacitated municipalities
- Commission will continue to undertake research to improve on certain aspects of the formula especially on cost of basic services

GOVERNMENT RESPONSE TO COMMISSION RECOMMENDATIONS

- Government has accepted all recommendations made by the Commission
- Government responded to recommendations according to whether they affect DoR issues:
 - Directly
 - Indirectly
 - Unrelated
- Parliament should use all recommendations on its oversight work

CONCLUSION

- Submission has provided commentaries on the 2013 Division of Revenue Bill
 - Government has agreed with the recommendations tabled in May 2012 by the Commission
 - Commission endorses the proposed changes to the LES formula. The Constitution, MISA and LG Turnaround Strategy need to be effectively utilised to assist poor municipalities
 - Commission welcomes proposals to consolidate number of provincial conditional grants and allowing for a two year lead time in planning for grants

CONCLUSION

- Commission welcomes proposals to review local government conditional grants
 - Extend review to provincial conditional grants
- Commission will be making recommendations in its 2014/15 submission to address:
 - Performance based grants
 - Grant proliferation
 - Health care funding
 - Provincial equitable share issues

END

Thank You



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