



A FRAMEWORK FOR SUPPORTING THE STANDING COMMITTEE ON APPROPRIATIONS

29 July, 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the FFC
2. FFC Support During National Budget Process
3. Strategies for Coordinated and Regular Feedback
4. Strategies to Enhance Partnerships: Training and Research
5. Exploring Ways to Exercise Systematic Oversight Over State Infrastructure Expenditure
6. Other: FFC and Parliamentary Budget Office
7. Summary



1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

- What is the FFC?
 - Permanent statutory body established in terms of Section 220 of Constitution
 - Independent and subject only to Constitution and the law
 - Must function in terms of an act of Parliament
 - Financial and Fiscal Commission Act 1997 as amended.
- The mandate of Commission?
 - Makes recommendations as envisaged in Chapter 13 of the Constitution
 - Section 214 (2), 218(2), 228 (2), 229(5), 230(2) 230A(2) of the Constitution
 - FFC Act (No 99. of 1997) IGFR Act (No. 97 of 1997)
 - Provincial Tax Regulation Process Act, Municipal Fiscal Powers and Functions Act, Borrowing Powers of Provincial Government Act, Municipal
- FFC in IGFR system
 - Municipal Finance Management Act, Municipal Systems Act, Money Bills Amendment Procedure and Related Matters Act, Intergovernmental Fiscal Relations Act

ROLE AND FUNCTION OF THE FFC [CONT.]

- Commission mandate is defined around two interrelated pillars:
 - The Commission must make recommendations to Parliament and provincial legislatures on the equitable division of nationally raised revenue annually
 - The Commission can make recommendations on any other financial and fiscal matter on request or of its own volition
 - The Commission should contribute towards the creation and maintenance of an effective, equitable and sustainable system of IGFR
- Two pillar mandate executed through evidence based research, recommendations, policy advice and outreach activities (public hearings, training, briefings and publications)

GENERAL PRINCIPLES

- FFC deals with IGFR
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - The Commission must be consulted in terms of the FFC Act
 - Commission notes increasing frequency with which due process is being disregarded –particularly with respect to functions being moved around between provincial, local and national government
 - Section 9 of Municipal Systems Act requires FFC to be consulted when an assignment of a power/function is being assigned to municipalities
 - Recent emerging developments around the assignment of the housing function to municipalities are a concern
 - Section 3(2A) of FFC Act – this behaviour not only puts integrity of the fiscal system at risk but can create distortions with respect to division of revenue and budget process
 - (shifting of FET colleges from provinces to national)

THE FFC AND POLICY

- Identify weaknesses within the IGFR system
- Propose evidence-based recommendations
- Interact and participate with/in forums and institutions responsible for IGFR policy
- Information dissemination
 - Regular briefings with nine provincial legislatures,
 - Regular interaction with organised local government
 - Regular interaction with various parliamentary committees
 - Policy briefs
 - Regular interaction with executive structures (Minmeecs, BC, BF, TT's)



2. FFC SUPPORT DURING THE NATIONAL BUDGET PROCESS

SUPPORT MEASURES DURING NATIONAL BUDGET PROCESS: 3 PILLARS

Providing recommendations to Parliament 10 months before budget

Making submissions on basis of IGFRA and MBAPRMA

On request advice and ensuring value for money

PILLAR 1: SUBMISSION FOR THE DIVISION OF REVENUE

- Submission made in terms of:
 - Section 214(1) of the Constitution (1996)
 - Section 9 of the Intergovernmental Fiscal Relations Act (1998)
 - Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)
- **Submission is made to Parliament 10 months prior to tabling of the DoR by the Minister of Finance**
 - Contains recommendations/proposals for the following fiscal year and medium terms expenditure framework (MTEF)
 - Constitute key element of support to the Appropriations Committee

2015/16 SUBMISSION: BALANCING FISCAL SUSTAINABILITY WITH SOCIO-ECONOMIC IMPACT

Macroeconomic and Fiscal Frameworks for Inclusive Growth



1. Macroeconomic Perspectives and Fiscal Frameworks
2. Public Debt Challenges
3. Social Programmes and the Need for Reform

Improving Investments in Education and Health



4. Equitable Resourcing of Schools
5. Adequacy and Efficiency in Primary Health Care Financing
6. Impact of Fiscal Expenditure on Food Security

Investment in Infrastructure



7. Improving Financing of Municipal Capital
8. Improving Public Transport
9. Impact of Electricity Prices on Municipalities
10. Better Human Settlements through Improved Planning and Funding

Demarcations and Beyond



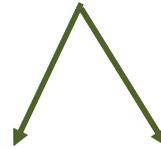
11. Impact of Demarcations on Municipal Finance

PILLAR 2: SUPPORT DURING DIVISION OF REVENUE

- Regular, annual engagement with the DoR process takes three forms:
 - Commission produces recommendations on the equitable division of revenue among the three spheres of government (S 9(1) of IGFR Act). This is accompanied by a technical report and simpler policy briefs.
 - Minister of Finance must consult the Commission 14 days prior to the introduction of the Bill in Parliament and indicate in a memorandum accompanying the Bill what account was taken of the Commission's recommendations (Sections 10(3) and (4) of FFC Act)
 - The Commission then produces its third document, a submission on the DoR Bill to Parliament
- Another important advisory task relates to assignments among spheres of government
 - Before tabling a proposal for a national or provincial assignment to local government in general, the national or provincial Minister must consult the Commission
 - An assignment of functions or fiscal powers has no legal force until the organ of state making such assignment has indicated the extent to which it gave consideration to the Commission's views

PILLAR 2: SUPPORT THROUGH MBAPRMA

- Money Bills Amendment Procedures and Related Matters Act (MBAPRMA) enacted in 2009. Sections making reference to FFC



Section 4(4C) requires that when committees on appropriations consider any money bill, the recommendations of the FFC must be considered/reported on

Section 9(7A) requires that in passing the annual division of revenue bill, the appropriations committees must consult with the FFC

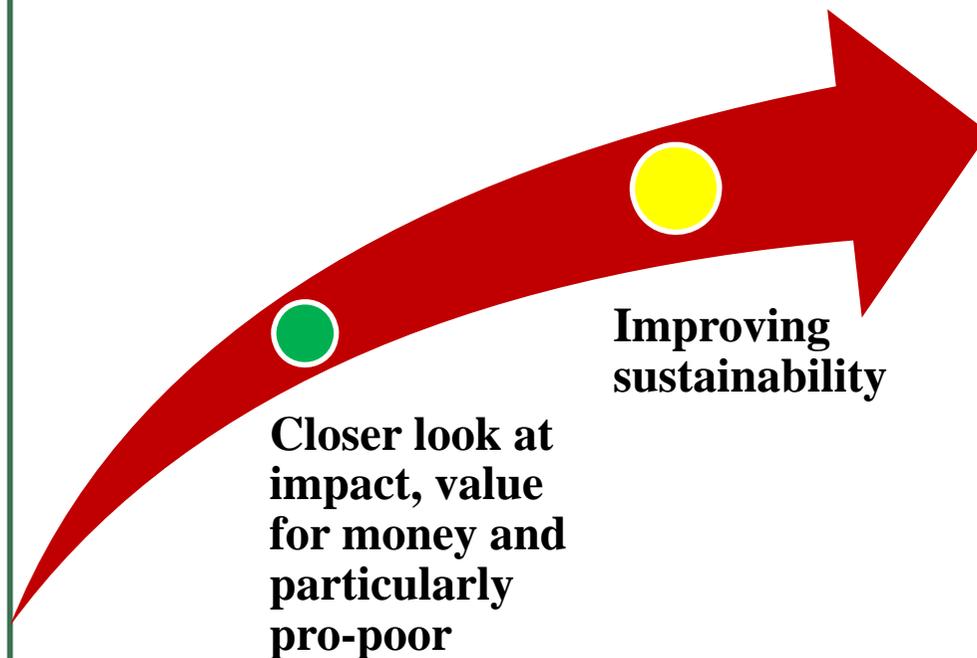
SUPPORT THROUGH MBAPRMA [CONT.]

- MBAPRMA formalises a four stage budget process consisting of the
 - Medium Term Budget Policy Statement (MTBPS),
 - Fiscal framework which delineates revenue and expenditure aggregates
 - Division of Revenue Act
 - Departmental appropriations considered by the various portfolio committees
- Makes provision for FFC input to:
 - Finance committee cluster on the MTBPS and the fiscal framework
 - Portfolio committees drafting of Budget Review and Recommendations (BRR) reports

PRIMARY OUTPUTS TO SUPPORT THE COMMITTEE THROUGH MBAPRMA

- Submission on the Fiscal Framework and Revenue Proposals
 - Contains FFC's response to the fiscal framework and revenue proposals contained in the budget tabled by the Minister
- Submission on the MTBPS and Amended DoR and Appropriation Bill
 - Contains the FFC's response to the MTBPS and adjustments to the division of revenue
- Submission on the DoR Bill
 - Submitted to Parliament in February and outlines the FFC's response to DoR Bill and relevant annexures
- Submission on the Appropriation Bill
 - Submission made to the Standing/Select Committee on Appropriations
- Any other special reports made at own initiative or on request by the Appropriations Committee

PILLAR III: ENSURING VALUE – DEVELOPMENTAL IMPACT



- Allocative efficiency and value for money
- Focus on Inclusive Growth
- Adding more areas (gender, environment, climate, innovation, and energy etc.)
- Poverty and inequality impact

FFC WORK AROUND VALUE FOR MONEY

- **Dimensions of value-for-money covered in FFC work:**
 - **Efficiency:** Achieving more output from the same input, while maintaining quality [Cost function work]
 - **Economy:** Reducing the cost of resources used as inputs [Consolidation]
 - **Effectiveness:** Achieving better outcomes by changing the nature of outputs [Wage Bill]
- Programmes not covered on the budget can be financed by reallocating spending from non-performing programmes
- Expenditure Limits and Quality



3. STRATEGIES FOR COORDINATED AND REGULAR BRIEFINGS ON LATEST RESEARCH AND SERVICE DELIVERY

STRATEGIES FOR REGULAR AND COORDINATED BRIEFING ON RELEVANT ISSUES

	FORMAL CHANNELS	SEMI-FORMAL CHANNELS	INFORMAL CHANNELS
Direct Methods	Annual submissions Request for meetings/briefings FFC Participation as observer in Oversight Visits Joint Committee Meetings	Direct high-level communication between Commissioners and Chair of Committee	Briefings during other meetings Impact of FFC recommendations being made to bear on Departments
Indirect influence via FFC Act	Board Meeting Invitations Committee Visits or Tour at the Commission Other meetings	Direct communication from Chairperson of FFC to Chairperson of Appropriations Committee	Informal contacts - own staff Margins meetings
Indirect via other agencies	Like minded groups Joint programs	'Non-formal agreements'	Leadership by example



4. STRATEGIES TO ENHANCE PARTNERSHIPS: TRAINING, RESEARCH AND INFLUENCING ALLOCATIONS

ENHANCING PARTNERSHIP BETWEEN FFC AND SCoA

- FFC can provide advice, analysis and training to assist the work of the Committee
 - Specialised IGFR training to committee members and/or parliamentary researchers on request
 - Provision of recommendations that are founded on evidence based research
 - Technical support with respect to parliamentary fiscal oversight activities
 - Section 32 Reports and conditional grants
 - Recommendations and reports readily available in the public domain
- One possible avenue to explore could be structured mentorship

IMPROVING BRRs THROUGH RESEARCH

- For Committees to influence budget allocations, timing of intervention is crucial
 - Efforts via BRR reports likely to yield much more impact than efforts applied later in the cycle
 - Efforts applied to MTEF outer years likely to be even more successful if well founded
- Some of the measures which could be considered include:
 - Sensitising committee researchers to the large array of source of independent analysis and research relevant to the BRR, including those from Chapter 9 Institutions Supporting Democracy and the FFC
 - Encouraging an approach where recommendations for more money in one programmatic areas is accompanied by suggestions for reprioritisation, savings and increasing efficiency
 - Identifying cross cutting themes (e.g. impact on vulnerable groups, employment creation or personnel related expenditure) that cut across all BRR Reports



5. EXPLORATION OF WAYS TO EXERCISE SYSTEMATIC OVERSIGHT OVER INFRASTRUCTURE EXPENDITURE

EXPLORE SYSTEMATIC OVERSIGHT ON STATE INFRASTRUCTURE EXPENDITURE

- Significant investment in infrastructure = critical to generation of growth and jobs
 - R847 billion allocated to targeted public infrastructure investment with specific focus on transport and electricity
 - Presidential Infrastructure Coordinating Commission (PICC) was established in 2011
PICC has prioritized 18 strategic infrastructure projects
- To improve oversight over infrastructure expenditure, Committee, the following options should be considered:
 - Institute regular reporting by the PICC:
 - PICC's mandate = to ensure selection, planning and monitoring implementation of large infrastructure projects - PICC could regularly report to SCoA on progress
 - Institute regular reporting by relevant sector departments and National Treasury
 - Generally infrastructure projects are funded via conditional grants. Grant recipients report to sector departments, National Treasury regarding expenditure and roll-out of infrastructure projects



Oversight visits to gauge progress can serve to confirm reporting by departments/other organs of state

MATRIX APPROACH TO OVERSIGHT

	DESIGN	IMPLEMENTATION	EVALUATION QUESTIONS
Targeting	The right people?	Type I and II errors	Why is targeting failing? (protocols faulty, not being followed, corruption ..)
Training / capacity building	Right people? Is it appropriate? Mechanisms to ensure skills utilized	Quality of delivery Skills / knowledge acquired and used	Have skills / knowledge changed? Are skills / knowledge being applied? Do they make a difference to outcomes?
Intervention delivery	Tackling a binding constraint? Appropriate? Within local institutional capacity	Delivered as intended: protocols followed, no leakages, technology functioning and maintained	What problems have been encountered in implementation? When did first benefits start being realized? How is the intervention perceived by staff and beneficiaries?
Behavior change	Is desired BC culturally possible and appropriate; will it benefit intended beneficiaries?	Is BC being promoted as intended (right people, right message, right media?)	Is behavior change occurring? If not, why not?



6. OTHER: FFC AND PARLIAMENTARY BUDGET OFFICE

MBAPRMA, FFC AND THE PARLIAMENTARY BUDGET OFFICE

- Parliamentary Budget Office (PBO) established in terms of Section 15 of MBAPRMA

KEY DIFFERENCES AND AREAS OF OVERLAP BETWEEN FFC AND PBO

FISCAL and FINANCIAL POLICY AREA	PBO FOCUS	FFC FOCUS
Coordination of fiscal and monetary policy	Key focus of PBO	Beyond the remit of FFC
Coordination of fiscal, exchange rate, trade and industrial policy	Key focus of PBO	Beyond the remit of FFC
Coordination of fiscal policy and labour market regulation	Key focus of PBO	Beyond the remit of FFC
Broad economy and sector wide outlook	Key focus of PBO comprehensively for domestic and global economy	Focus of FFC in relation to the fiscal framework

KEY DIFFERENCES AND OVERLAPS BETWEEN FFC AND PBO [CONT.]

FISCAL & FINANCIAL POLICY AREA	PBO FOCUS	FFC FOCUS
Fiscal Framework: assumptions, aggregate revenues and expenditures	Key focus of PBO	Focus of FFC in so far as it impacts on IGFR
Unfunded Mandates	Statutory focus of PBO	Focus of FFC is on unfunded mandates occurring at interface between spheres of government only
Revenue Management	Key focus of PBO	Subnational revenue management primarily
Debt management and deficit financing	Key focus on the PBO	Top slice, aggregate debt only to the extent it impacts DoR and subnational governments
Revenue sharing: DoR and conditional grant design	Secondary focus of PBO,	Primary focus of FFC, focussing within spheres and interface across spheres
Monitoring and evaluation	PBO focuses on achievement of value for money obtained across all outcomes of the executive	FFC focuses primarily on developmental impact of concurrent functions

KEY DIFFERENCES AND OVERLAPS BETWEEN FFC AND PBO [CONT.]

FISCAL & FINANCIAL POLICY AREA	PBO FOCUS	FFC FOCUS
Public expenditure management	PBO needs to support the budget oversight role of Parliament and will focus on individual departments and public entities	FFC does not primarily analyse individual appropriations, but focuses on transversal public expenditure management issues that have broad impact across/between spheres, or across a particular sector (mainly for concurrent functions)
Costing of new legislation and significant legislative amendments	Primary focus of the PBO	Only relevant in so far as new legislation or executive decisions have intergovernmental fiscal implications

SUMMARY

- FFC looks forward to supporting the Standing Committee on Appropriations
- Support during National Budget Process through submissions
- Other forms of support:
 - Strategies for coordinated and regular briefings
 - Partnerships with regard to training, research and identification of training, mentorships and visits
 - Systematic oversight over infrastructure expenditure
 - Continue to strengthen synergies between FFC and PBO.

FFC's WEBSITE: WWW.FFC.CO.ZA



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2015/16 SUBMISSION FOR THE DIVISION OF REVENUE



“Balancing Fiscal Sustainability with Socio-economic Impact”. The country faces more severe economic and fiscal challenges than most people realise, at a time of deep and widespread uncertainty over the world economy and its financial system that is unparalleled since the Great Depression. But even after the world economy once more finds its footing, South Africans cannot assume that strong economic growth will follow, especially given the poverty and inequality challenges facing the country. The government needs to have steady

NEW!!!

- [President Zuma appoints members to the Financial and Fiscal Commission](#)
- [Growing Revenue is the Priority](#)
- [Submission on the 2014 Appropriation Bill](#)
- [2015/16 Submission for the Division of Revenue](#)
- [Submission on the 2014 Division of Revenue Bill](#)
- [2014 Submission on Fiscal Framework and Revenue Proposals](#)
- [Response to Questions Posed During the Financial and Fiscal Commission Briefing of the Standing Committee on Appropriations on the 2013 Medium Term Budget Policy Statement](#)

UPCOMING EVENTS