



BRIEFING TO BUDGET COMMITTEE OF THE  
WESTERN CAPE PROVINCIAL PARLIAMENT ON THE  
2014 DIVISION OF REVENUE AMENDMENT BILL

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07 November 2014

*For an Equitable Sharing of National Revenue*

# STRUCTURE OF PRESENTATION

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1. Economic and Public Finance Overview
2. Challenge with respect to Provincial Fiscal Framework
3. Changes to the Provincial Conditional Grants Framework
4. Amendments to the 2014 Division of Revenue
  1. The Case of the Western Cape Province
5. Conclusion

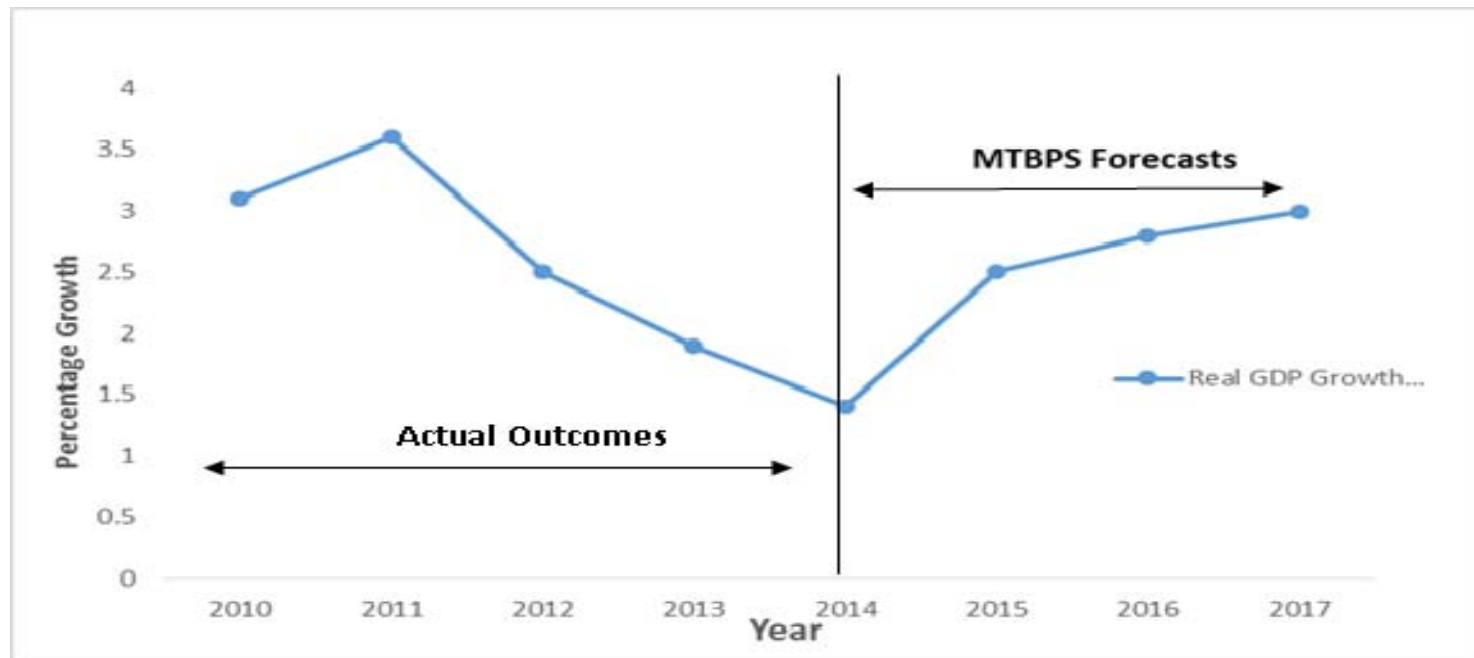


# ECONOMIC OVERVIEW AND CHALLENGES TO PROVINCIAL FISCAL FRAMEWORK

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# SETTING THE SCENE: ECONOMIC OUTLOOK AND PUBLIC FINANCE OVERVIEW

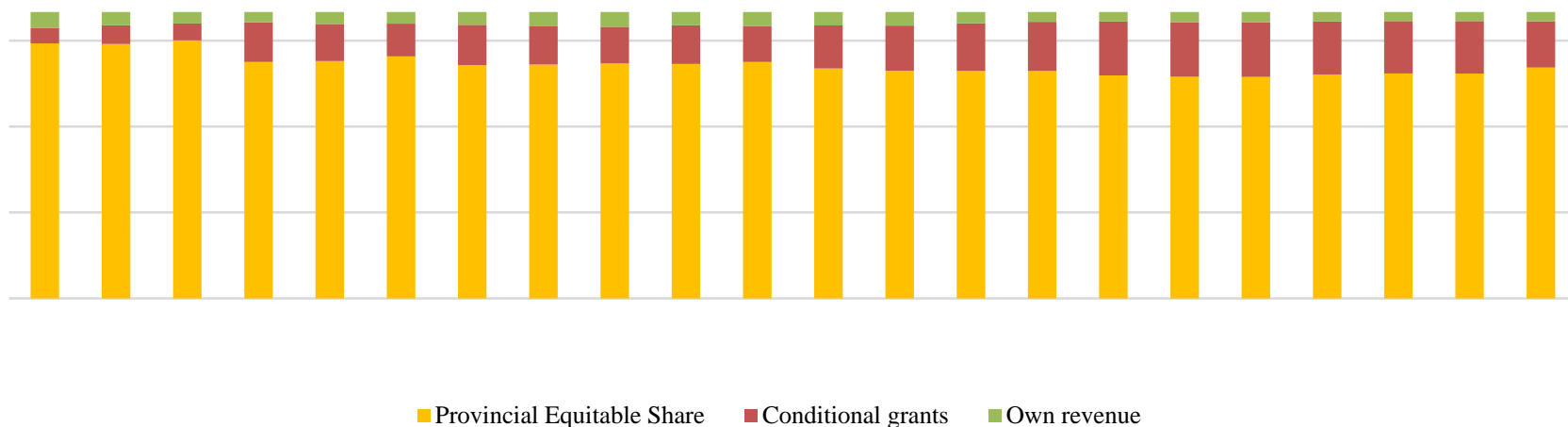
- Economic growth tracking FFC pessimistic scenario
  - For 2014: Growth is 1.4% in MTBPS compared to 2.7% growth in 2014 Budget
  - For 2015: Growth forecast has been revised downwards to 2.5% from 3.2%
  - For 2016: Growth as been revised downwards to 2.8%, from 3.6% previously



# DIVISION OF REVENUE: PROVINCIAL SPHERE

- Share of own revenue has declined from 6% in 1995/6 to 3% in 2013/14
- The largest share of provincial funding is in the form of intergovernmental transfers, which comprises the provincial equitable share and conditional grants
  - The inability of provinces to maximise own revenue collection has created a heavy reliance on intergovernmental transfers and a mismatch between provincial own revenues and expenditure needs which widens the vertical fiscal imbalance

## Provincial Revenue by Source, 1995/96 – 2016/17



# DIVISION OF REVENUE – WESTERN CAPE

- Increased reliance on conditional grants to fund service delivery in Western Cape Government (WCG)
  - Conditional grants increased as a share of total income from 5% in 1996/7 to 22% in 2012/13
- Provincial own revenue peaked at 10% of total income in 2005/6, but then declined to 5% in 2012/14 as a result of the economic recession

**Provincial Revenue by Source, Western Cape Government**



# DIVISION OF REVENUE: PROVINCIAL SPHERE

## [CONT.]

- The increase in intergovernmental transfers particularly conditional grants, is in response to a perception harboured by national government that provinces are not or are incapable of prioritizing national policy objectives and speed up infrastructure service delivery
  - By controlling funds from the centre, there is a belief that provincial performance will improve in response to imposing conditions that will hold provinces to account
- It is the Commission's view that following the recent review of the Local Government Fiscal Framework (on-going) it is now time to review the provincial fiscal framework so that provinces' role in economic development can be better appreciated
- Current practice has had the unintended consequence of characterising provinces as implementation agents for government's social programs, namely education, health and social development
  - As a result, resources for other provincial functions become a residual (particularly economic development) resulting in inherited disparities being perpetuated



# CHANGES TO PROVINCIAL GRANT FRAMEWORK

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# CHANGES TO PROVINCIAL GRANTS FRAMEWORK

- Corrections to the framework on provincial grants affect all provinces and are on: the education infrastructure grant (EIG), health facilities revitalisation grant (HFRG), national health grant (NHG), Human settlements development grant (HSDG) and Provision of roads maintenance grant (PRMG)
  - EIG AND HFRG
    - Correction of the framework to align the dates for the submission of infrastructure plans to those prescribed by DORA, 2014
    - Correction of amounts to implement infrastructure projects: EIG - R16 million R26 million and HFRG – R16 million to R29 million
  - NHG – HFRG component
    - Infrastructure Programme Management Plan, Infrastructure Programme Implementation Plan and Annual Implementation Plan have to include costed project lists for 2014/15, 2015/16 and 2016/17 and projected milestones
    - Correction of the dates for approval of 2015/16 Annual Implementation Plans to be aligned with those prescribed in the DORA, 2014

# PROVINCIAL GRANTS FRAMEWORK [CONT.]

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- NHG – National Health Insurance component
  - Inclusion of “other health care services” which was omitted in the framework instead of only “medical practitioners”
  - Changing the word “contracting” to “purchasing services from”
  - Addition of “the implementation of alternative models for the supply of chronic medicine” to the outcomes and conditions of the grant framework
  - Correction of the due date to submit business plans to National Treasury from two weeks after the enactment of DORA to 30 July 2014
  - Correction for the MTEF to R395 million, R414 million and R401.9 million in 2014/15, 2015/16 and 2016/17 respectively
- HSDG- Proportion for bucket eradication
  - Following a function shift (sanitation) to Department of Water and Sanitation (DWS), transferring department changed to DWS



– PRMG

– Correction reflecting that project list must be tabled in provincial legislatures



# ADJUSTMENTS TO 2014 DIVISION OF REVENUE

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# ADJUSTMENT ESTIMATES

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- Annually government makes adjustments to the main, approved budget passed in February. These are expenditures that cannot be planned for in the beginning of the financial year and are meant to cater for unforeseen and unavoidable expenditure
  - Generally expenditure requirements may be the result of an in-year rise in inflation, reimbursements to sub-national governments for the shortfalls in the agreed to salary adjustments for public servants or for refunding sub-nationals that experienced nationally declared natural disasters
  - Where adjustments affect the division of revenue, a Division of Revenue Amendment Bill must be tabled –required in terms of S12(4) of the Money Bills Amendment Procedure and Related Matters Act

# OVERVIEW OF ADJUSTMENTS TO 2014/15 DIVISION OF REVENUE

- In February 2014 when the budget was tabled the allocation to the three spheres was R1.142 trillion
  - Following the tabling of the Adjustment Budget, this has been revised down by R6.222 billion bringing the adjusted 2014/15 allocation to R1.136 trillion

<b>R'000</b>	<b>2014/15 Main Allocation</b>	<b>Adjustment</b>	<b>2014/15 Adjusted Allocation</b>
National	735 604 179	(6 222 624)	729 381 555
Provincial	362 468 075		362 468 075
Local	44 490 145		44 490 145
<b>TOTAL</b>	<b>1 142 562 399</b>	<b>(6 222 624)</b>	<b>1 136 339 775</b>

## ADJUSTMENTS TO PROVINCIAL ALLOCATIONS – PROVINCIAL EQUITABLE SHARE

- Due to the tightening of the fiscal framework, mid-year adjustments of the provincial equitable share have steadily declined since 2012
  - No adjustments to the provincial equitable share was made in 2014
  - The Commission welcomes efforts to manage the public sector wage bill in 2014/15, which has largely been driving adjustments to PES in 2012/13 and 2013/14

<b>Mid-year Adjustments to Provincial Equitable Share (R'000)</b>			
	2012/13	2013/14	2014/15
All Provinces	3 958 416	1 364 405	-
WCG	347 235	97 569	0
% Share	9%	7%	

# ADJUSTMENTS TO PROVINCIAL ALLOCATIONS – ROLL-OVERS

- An amount of R9.7 million rolled-over to provinces in the 2014 DOR Amendment Bill from unspent balances in 2013/14
  - For the Western Cape Government (WCG), there were no roll-overs recorded in 2014/15
  - The Commission welcomes significant reduction in roll-overs, which suggests government is exercising stricter monitoring and evaluation on roll-over requests

<b>Provincial Roll-overs (R'000)</b>			
	2012/13	2013/14	2014/15
All Provinces	0	125 000	9 700
WCG	0	44 500	0
% Share		36%	

# ADJUSTMENTS TO PROVINCIAL ALLOCATIONS – CONDITIONAL GRANTS

- A general trend in the past two years are overall reductions in conditional grants where money is taken away from underperforming grants
- The WCG receives R397.7 million in the 2014 DOR Amendment Bill as a result of the school infrastructure backlogs grant being converted from an indirect to a direct grant with the WCG taking over as the implementing agent

<b>Adjustments to Conditional Grants (R'000)</b>			
	2012/13	2013/14	2014/15
All Provinces	468 336	-69 553	-103 273
WCG	13 376	-65 934	397 675



## ADJUSTMENTS TO PROVINCIAL ALLOCATIONS – CONDITIONAL GRANTS [CONT.]

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- The Commission is in agreement with the differentiated approach being adopted with respect to indirect grants where provinces that show capacity is given the responsibility to take over the function
  - This is in line with the Commission’s view that indirect grants should be phased out over time and should be synchronised with capacity building of under capacitated provinces and municipalities
- The Commission is currently undertaking a study for the 2016/17 Division of Revenue examining the efficacy of direct compared to indirect grants

# CONCLUSION

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- The Commission is in agreement with the overall thrust of the 2014 Amendment to the Division of Revenue
- Given the current negative economic outlook, the Commission agrees with the government stance on fiscal consolidation and tightening measures to maintain expenditure sustainability. In this regard, the Commission welcomes
  - Reductions in rollovers as well as managing unforeseen and unavoidable expenditure
  - No adjustments to PES by managing the provincial wage bill
- The Commission welcomes the differentiated approach being adopted with respect to the indirect grants and calls for clear plans to capacitate provinces and municipalities while phasing –out indirect grants over time
- Government should review the Provincial Government Fiscal Framework with a view to ensuring its long term viability and emphasis on economic development

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