



Financial and Fiscal Commission Recommendations Since 1995

For an Equitable Sharing of National Revenue

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Preamble

The Financial and Fiscal Commission (FFC or ‘the Commission’) is a statutory institution that provides independent, impartial advice and recommendations on intergovernmental fiscal relations, including the technical evaluation and design of provincial and local fiscal and economic policy. Established by the Constitution of South Africa in 1994, the Commission provides information to all organs of state to help them make informed decisions about complex fiscal issues. It is a permanent expert commission with a constitutionally defined mandate. *“The FFC is given a special role within the intergovernmental fiscal framework. This role is to be an independent and impartial statutory institution, accountable to the legislatures, with the objective of contributing towards the creation and maintenance of an effective, equitable and sustainable system of intergovernmental fiscal relations, rendering advice to legislatures and organs of state regarding any financial and fiscal matter which has a bearing on intergovernmental fiscal relations.”* – Adaptation from Framework Document for Intergovernmental Fiscal Relations in South Africa, FFC, 1995.

The Commission’s mandate can be distilled into three broad areas:

- 1) *The Commission must make recommendations to Parliament and provincial legislatures on the equitable division of nationally raised revenue:* It is in the Commission’s mandate to apprise itself of all matters relating to the equitable division of nationally raised revenue including equitable share grants, conditional grants and any other grants annually. In this respect the Commission has exclusively focused its recommendations on the horizontal division of revenue and entirely neglected recommendations on the vertical division which are a key component of the mandate. The first set of issues that the Commission institutionalised as guiding principles for carrying out its mandate in 1995 can be summarised as follows and have generally been applied on the horizontal division of revenue and related matters:
 - a. *Equitable financial resources to perform assigned functions*
 - b. *Predictable and objectively arrived-at allocations*
 - c. *Sufficiency of resources to ensure the provision of minimum levels of basic services including administrative responsibilities*
 - d. *Financing of unique national services*
 - e. *Reasonable fiscal autonomy for provinces and municipalities*
 - f. *Progressively addressing and eliminating backlogs, poverty, economic disparities, and meeting developmental need*
 - g. *Supporting long-term economic growth objectives of the country*
 - h. *Supporting the development of democratic and accountable government*
 - i. *Closing the fiscal gap both horizontally and vertically (grants, taxes and loans)*
 - j. *Ensuring transparency in the budget process (budget reforms)*

The Commission also addresses the vertical division:

- a. *Credible projected macro-economic and fiscal environment (revenue, debt, inflation, expenditure, etc)*
- b. *Fair costing of services based on minimum norms and standards or similar approach*
- c. *Clearly targets around the progressive realisation of constitutionally mandated basic services*
- d. *Addressing backlogs and other infrastructure requirements*

e. Adapting to function shifts among and across spheres of government

Further to the requirements on this mandate as enabled by Section 9 of the IGFR Act of 1997 (annual submission on the division of revenue) the Financial and Fiscal Commission Act enables the Commission to conduct research and make recommendations on any other financial and fiscal matter with a bearing on the IGFR system upon request by organs of state or of its own accord. The Commission must provide its reports to Parliament. The requirement is that such reports have to be tabled in Parliament and the provincial legislatures or any other organs of state authorised by national legislation.

- 2) *The Commission can make recommendations on any other financial and fiscal matters with a bearing on intergovernmental fiscal relations:* The passing of the enabling legislation to allow Parliament to amend the money bill (Money Bills Amendment Procedure and Related Matters Act (1999) provides some direction in the way that the Commission can add meaning to this very broad mandate which is open to all sorts of interpretation and has always degenerated into a source of tension between the National Treasury and the Commission. To fulfil the requirements of this Act, the Commission has to look at the broader issues of government expenditure and the funding mechanisms for such spending with a view to safeguarding the credibility and long-term sustainability of the fiscal frameworks. In doing this it is then within the mandate of the Commission to for example examine, evaluate or make recommendations on the suitability or appropriateness of any norms and standards applicable to the implementation of government programs be they on the spending or the financing side. Furthermore it is well within the mandate of the Commission to examine, review or make recommendations on the appropriateness of indicators for policy outcomes, delivery outputs and financial inputs across the spheres of government in the pursuit of objectives around the progressive realisation of constitutionally mandated basic services
- 3) *The Commission contributes towards the creation and maintenance of an effective, equitable and sustainable system of intergovernmental fiscal relations:* The Commission has a unique position and a strong role to play in the evolution of the IGFR system. IGFR Act allows the Commission to participate in the budget council and the budget forum and the Commission can contribute immensely through influencing discussions here but it is also important that the protocols for the Commission's participation are defined.

To date the Commission has made key contributions with respect to the financing arrangements and the evolution of the intergovernmental fiscal relations systems in South Africa. Among these are the proposals to have a formula-based intergovernmental transfers and allocations that ensure transparency and take account of the Constitutional provisions of Section 214 a-j of the Constitution. The full list of the recommendations organized by sector constitutes the rest of this document.

Table 1: Past FFC Recommendations

History: 1995 – 2010 Financial and Fiscal Commission Recommendations	
Local Government Issues	
FFC’s Recommendation	Government’s Response
<ul style="list-style-type: none"> Proposed a Framework for Intergovernmental Fiscal Relations 1995/96 	<input type="checkbox"/> Government accepted the framework and adhered to the broad principles proposed by the FFC
<ul style="list-style-type: none"> Proposed that government create the conditions necessary for the emergence of a local government borrowing market through enhancing LG debt management capacity and implementing a rule based approach for infrastructure provision. 2000/01 	<input type="checkbox"/> Government broadly supported the proposal and suggested further work before implementing this proposal.
<ul style="list-style-type: none"> Proposed that remuneration of councilors should be channeled through the existing institutional grant of the LES 2002/03 	<input type="checkbox"/> Government supported the proposal
<ul style="list-style-type: none"> Proposed a comprehensive review of the local government fiscal framework. 2003/04 	<input type="checkbox"/> The review, which covers the equitable share and conditional grants, as well as other taxes and levies in addition to property rates is currently under way, and it is hoped that these will be finalized in time for the 2005 Budget
<p>Government Should: (2011/12)</p> <ul style="list-style-type: none"> Adopt standard early warning systems to detect fiscal stress in municipalities and reach consensus on them. Legislate, through S43 of the LGMS Act of 2000, revenue collection as one of the key performance areas against which to assess overall municipal performance. 	<input type="checkbox"/> National government has an early warning system that monitors municipal finances. This system is anchored by the budget formats prescribed in terms of the municipal budget and reporting regulations, the associated funding compliance assessment (see MFMA Circular 42) and monthly financial reports required in terms of section 71 of the MFMA. <input type="checkbox"/> National government supported the recommendation that each municipality should have a broad revenue improvement programme in place. policies, procedures and processes <input type="checkbox"/> The relevant acts that govern revenue collection by municipalities place

<ul style="list-style-type: none"> • Support efforts to estimate the fiscal capacity and fiscal effort of municipalities to dispel the perception that certain municipalities will never be financially viable. 	<p>positive obligations on municipal councils and municipal managers to put policies, processes and systems in place to ensure sound management of the various own revenue sources.</p> <ul style="list-style-type: none"> □ National government believes that at this stage there is far more to be gained from improving the accuracy and completeness of municipal billing systems, and putting in place proper customer relations capacity. Experience has shown that these yield far better results for debt collection, but the idea of creating municipal debt courts can be considered in the medium term. □ The notion that certain municipalities will never be financially viable is a misrepresentation of both the design of the local government fiscal framework and the practical reality of local economies. □ National government is investigating the issue of developing measures of fiscal capacity – it is by no means a straightforward task given the impact that traditional land and different modes of service delivery have on many municipalities’ rates bases and service revenues. <ul style="list-style-type: none"> •
<ul style="list-style-type: none"> □ Use the institutional component of Local Equitable Share to assist poor municipalities 	<ul style="list-style-type: none"> □ Government agreed that changes are required to improve the way the local government equitable share is allocated between municipalities. To assess whether the local government equitable share formula results in an equitable division among individual municipalities (horizontal division) as stipulated in sections 214 and 227 of the Constitution, the formula should be analysed as a whole – rather than subcomponents in isolation. Several adjustments are made to the local government equitable share formula this year and further changes will be made after a full review of the formula in 2011 (discussed in part six of this annexure).
<ul style="list-style-type: none"> □ Develop alternative methods of revenue prediction for the Revenue Raising Component 	<ul style="list-style-type: none"> □ The institutional component has been changed in 2011, adjusting the amount allocated to municipalities in terms of their

<p>□ Remove the step structure of the differentiated tax mechanism of the Revenue Raising Component and develop a flat gradient structure so that municipalities on the outer ends of bands are not treated unfairly</p>	<p>poverty rate. This means that poorer municipalities will receive increased allocations. Details of this change are set out in part five of this annexure.</p> <p>□ In the absence of accurate property valuation rolls for all municipalities and with no official data on economic activity at municipal level, it is very difficult to construct a model that would provide fair estimates of municipalities’ capacity to raise their own revenues.</p> <p>□ Government agreed to the recommendation to remove the stepped structure from the revenue-raising correction and a smooth curve has been used instead to calculate the differentiated “revenue correction” rate applied to each municipality. The value of the revenue raising correction has also been reduced in this MTEF to compensate for demographic changes not reflected in the formula, due to the use of 2001 Census data. The total value of the revenue-raising correction component of the formula will be reduced, giving it less of an impact on the allocations to individual municipalities.</p>
<p>□ Subject revenue enhancement programmes to empirical tests that cover changes in (a) effective tax rates (b) tax burdens (c) yield, efficiency and overall fairness</p>	<p>□ Government supported these recommendations with the exception of the piloting of a workfare programme. Although exploring potential policy initiatives through pilot programmes has many benefits, giving cash benefits to individuals can be problematic. It will be extremely difficult for government to exclude people from the pilot and if it fails it will be complicated to withdraw support</p>
<p>□ A blanket regionalisation approach, as proposed in the 17th amendment to the Constitution, is not supported. Current legislative provisions allow for alternative service delivery arrangements that do not dilute municipal authority</p> <p>Government should</p> <ul style="list-style-type: none"> ○ Revisit the Blue Print assumptions 	<p>□ Government supported these recommendations with the exception of the piloting of a workfare programme. Although exploring potential policy initiatives through pilot programmes has many benefits, giving cash benefits to individuals can be problematic.</p>

<p>initially made to restructure the EDI. Clarify whether it is necessary to change ownership and structure in order to ensure efficiency, economies of scale, robust regulations and to deal with management challenges in the sector</p> <ul style="list-style-type: none"> ○ Conduct an up-to-date re-evaluation and analysis of the benefits of restructuring the EDI. ○ Finalise EDI Restructuring Bill and practical guidelines (Asset Transfer Guide) related to the shifting of municipal/Eskom distribution assets first before moving towards more advanced stages of restructuring ○ Ensure compatibility of operating systems that will underpin REDs activities ○ Universal access to electricity should not be lost in EDI restructuring process. (2011/12) <p>□ Municipalities need to improve technical efficiency in utilising existing resources</p> <ul style="list-style-type: none"> ○ Skewed resource distribution, service delivery arrangements in terms of the provision of basic and FBS and skills levels in municipalities’ impact on efficiency. 2012/13 	<ul style="list-style-type: none"> □ The FFC recommendations were proposed before government resolved not to continue with the restructuring and establishment of the regional electricity distributors. The FFC’s recommendations were therefore regarded as moot. □ The introduction of the new urban settlements development grant to address informal settlements and accelerate urban land release should help to improve the efficiency of land-use patterns.
<p>□ Government should ensure that municipalities develop their own climate change mitigation and adaptation strategies and plans for climate change as part of the Integrated Development Planning process. Government should provide support in this respect to municipalities over the next three years, distinguishing between different types of municipalities by both location and capacity in terms of the mandatory requirements placed on them. 2012/13</p>	
<ul style="list-style-type: none"> ● Government should consider providing municipalities with a performance-based conditional grant, which rewards or incentivises actions that are environmentally efficient and responsive to the adaptation and 	<p>□□The poor uptake of existing incentive grants shows that incentive grants are not the most efficient way to influence the behaviour of municipalities. There may be merit in a specific conditional grant to address major climate change related infrastructure requirements, e.g. coastal</p>

<p>mitigation challenges of climate change. The design of the proposed grant should pay attention to municipality specific factors, such as the area, topography, coastal/or otherwise, and vulnerability to climate change. Specific focus areas for this grant should include:</p> <ul style="list-style-type: none"> • Efficient water management practices, including the minimisation of water losses, effective asset management or rehabilitation programmes, and demand management; • Efficient energy management practices, including the minimisation of electricity losses (unaccounted for electricity), the elimination of illegal connections and energy savings by both households and industry; and • The implementation of green procurement principles. <p>•</p>	<p>breakwaters or storm water management systems. However more research needs to be done as to how such a grant should be structured.</p>
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History: 1995 – 2009 Financial and Fiscal Commission Recommendations	
Provincial Equitable Share issues	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> Recommended that total provincial allocations be divided by means of a transparent and equitable provincial grant formula: $P = S + B + T + I + m$ 1996/97 	<ul style="list-style-type: none"> □ Government accepted some elements of the formula suggested by the FFC and were considered in making final allocations for 1997. Government further indicated that the final provincial equitable allocations were derived from a formula similar in design to that proposed by the FFC. •
<ul style="list-style-type: none"> Proposed a Review of the equitable share formula 2001/02 	<ul style="list-style-type: none"> □ Government accepted the FFC's recommendation and further indicated that the review should take place once provinces take up specific taxation powers as their fiscal capacity may change. •
<ul style="list-style-type: none"> The FFC proposed that weights assigned to different components of the formula be revised to take account of the changing priorities and changing composition of shares of social services in total provincial expenditure. 2004/05 	<ul style="list-style-type: none"> □ Government accepted the proposal and the weights of different components were rescaled based on the provincial social services expenditures.
<ul style="list-style-type: none"> Proposed that the backlogs component of the PES be incorporated into the basic component and a separate conditional grant be set up for financing capital infrastructure. This should be allocated to provinces using the FFC's proposed provincial Capital grants Model. 2005/06 	<ul style="list-style-type: none"> □ Government accepts the proposal that the backlog component be removed from the equitable share formula. Government further asked the FFC to submit a supplementary proposal in which it explains in more detail its proposed Capital grant Model.
<ul style="list-style-type: none"> Proposed that indicative allocations to schools and hospitals be gazetted with the tabling of provincial budgets, this practice be extended to clinics and 	<ul style="list-style-type: none"> • Government indicated that given the capacity constraints in certain provinces, attention is currently being given to ensuring compliance

<p>other public health care facilities, as and when they fall under provincial control</p> <p>2009/2010</p> <ul style="list-style-type: none"> • 	<p>with existing requirements</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> The FFC's recommendations on the provincial equitable share formula deal with principles, short-term solutions to the reform of the formula and medium-term solutions to the reform of the formula.</p> <p>2010/2011</p>	<p><input type="checkbox"/> The Budget Council of 2007 endorsed a comprehensive review of the provincial equitable share formula. A task team consisting of the FFC, National Treasury and provincial treasuries was appointed to undertake the review of the provincial equitable share formula. The review is being undertaken in two phases, namely (a) the development of the policy imperatives that should underpin the reform of the formula and (b) proposals on how the formula should be reconfigured so as to better support the achievement of these policy imperatives.</p>
<p><input type="checkbox"/> Option 1: The short-term solution</p> <p><input type="checkbox"/> The FFC recommended that the reform of the provincial equitable share formula stays within the confines of the current constitutional dispensation. The provincial equitable share formula should retain for the most part its current structure, and only be reformed to bring it closer to a conventional equalization grant, which equalizes both expenditure and revenue. The provincial equitable share formula should be divided into a number of components in pursuit of clear and separate objectives</p> <p><input type="checkbox"/> Reform Option 2: The Medium- to long-term solution</p> <p><input type="checkbox"/> The FFC recommended that the reform should depart from the realization that fixing the provincial equitable share as a pool requires the fixing of other aspects of the current fiscal decentralization system. The reform of the provincial equitable share will require the reform of current expenditure and revenue assignment between the national and provincial governments.</p>	<p><input type="checkbox"/> The Government noted the recommendation for an equalisation grant which is normal practice internationally will be taken into account during the review. In considering this recommendation the government is conscious that the provincial sphere has specific responsibilities to implement national policies and achieve redistributive objectives of government. The review will also include other proposals of the FFC, including appropriate methods of funding of social functions, such as education and health services, and economic services.</p>

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History: 1995 – 2009 Financial and Fiscal Commission Accepted Recommendations	
Tax issues	
FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> Proposed that the following taxes should constitute provincial own revenue sources: a surcharge on personal income tax, a fuel levy and betting and gambling taxes <p><input type="checkbox"/> <input type="checkbox"/> 2000/01</p>	<p><input type="checkbox"/> Consistent with government's approach but identification of specific taxes and rates is an outcome of a technical and political consultative process according to the Provincial Tax Regulations Act. There are also other technical factors such as additional administrative burdens and exacerbation of inter-provincial inequalities which make a personal income tax surcharge undesirable</p>
<ul style="list-style-type: none"> Proposed that the replacement revenue source for municipalities should be a tax that enhances the fiscal autonomy and discretion of local governments <p>2009/2010</p>	<ul style="list-style-type: none"> However, the revenue capacities of individual municipalities need to be taken into account, because a replacement revenue instrument that is purely in the form of a tax is unlikely to achieve the desired goal

History: 1995 – 2009 Financial and Fiscal Commission Accepted Recommendations

Issues on Grants

FFC's Recommendation	Government's Response
<ul style="list-style-type: none"> • Proposed that a Capital grants be allocated to the provinces from the national sphere to address social infrastructure backlogs as an interim solution. <p><input type="checkbox"/> 2000/01</p> <ul style="list-style-type: none"> • 	<p><input type="checkbox"/> The approach was adopted for the following MTEF. Government further agreed with the FFC on the need to develop a framework around Capital grants. As there was no analytical model for allocating the grant, the FFC began developing a Capital grants model for the education, health and welfare sectors.</p>
<p><input type="checkbox"/> The FFC reiterated its previous recommendations that conditional grants should be used solely to address problems of spill-over benefits and to deal with the funding of national priority programmes that still need to be institutionalised in provincial or municipal budgets.</p> <p>2007/08</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal and further that such a move was envisaged to improve monitoring and evaluation.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> The FFC reiterated its previous recommendations that conditional grants should be used solely to address problems of spill-over benefits and to deal with the funding of national priority programmes that still need to be institutionalised in provincial or municipal budgets.</p> <p>2007/08</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal and further that such a move was envisaged to improve monitoring and evaluation.</p>
<p><input type="checkbox"/> FFC proposed effective coordination of planning for the various provincial and municipal infrastructure grants should be instituted as a matter of urgency to ensure optimal outcomes from school infrastructure investment.</p> <p>2008/2009</p>	<p><input type="checkbox"/> To address misalignment where this exists, government introduced the electricity and water and sanitation grants to ensure that municipal infrastructure supported the school infrastructure programme.</p>
<p><input type="checkbox"/> The FFC recommended that, in accordance with the prescripts of the expanded public works programme, job-creation target groups such as women, youth and people with disabilities should be included</p>	<p><input type="checkbox"/> The recommendation for reporting on targets was supported.</p>

<p>in the reporting of the outcomes measures for all conditional infrastructure grants to provinces and municipalities 2009/2010</p>	
<ul style="list-style-type: none"> • FFC recommended that all provincial departments receiving the integrated housing and human settlement development grant should comply with the measurable outputs related to reporting requirements detailed in the housing conditional grant framework <p>2009/2010</p> <ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> □ Government agreed with the recommendation that all provincial departments should comply with the measurable outputs related to reporting requirements. •
<ul style="list-style-type: none"> □ Introduce a mandatory, systematic process for designing and planning individual conditional grants. <p>2009/2010</p> <ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> □ Guidelines on how to introduce and terminate conditional grants are available and the recommendation that criteria for disbanding the grant should be identified upon introduction is welcomed. However, the fiscal system should continue to be responsive to the needs of government. Government should have the flexibility of introducing and terminating conditional grants where there is a clear rationale to do so.
<ul style="list-style-type: none"> □ Ensure there is an independent evaluation of grant performance at entry, midterm and end of grant. <p>2009/2010</p> <ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> □ The allocation criteria for grants are explained in the relevant conditional grant frameworks
<ul style="list-style-type: none"> □ Government should Make the criteria for dividing grant allocations transparent. □ Continue to emphasise the importance of non-financial data reporting. <p>2009/2010</p>	<ul style="list-style-type: none"> □ Government agreed and will continue to emphasise the importance of non-financial performance reporting. Performance audits at provincial level should bring about substantial improvements to the quality of performance information. •
<ul style="list-style-type: none"> □ National departments must make accounting for delivery a prerequisite for most conditional grants. <p>2009/2010</p>	<ul style="list-style-type: none"> □ Government supported this recommendation. However, the administrative ability in provincial and local government must be strengthened before incentives for innovation are likely to have the desired effect.

<input type="checkbox"/> Budget allocation process must follow grant frameworks specifically. 2009/2010	<input type="checkbox"/> Government agreed with the proposal and monitoring is taking place through section 32 of the PFMA and section 71 of the MFMA.
Social services issues	
<ul style="list-style-type: none"> • Recommended that social security should be a national responsibility administered through the establishment of the national social security agency <input type="checkbox"/> 2002/03	<input type="checkbox"/> Government accepted the proposal and is currently implementing it.
Proposed a design of the poverty alleviation package which should align the social security payments with provision of free basic services. <input type="checkbox"/> 2003/04	<input type="checkbox"/> Government undertook a review of the poverty alleviation programmes and has decided to phase most of them into the equitable share or into the infrastructure grants.
<input type="checkbox"/> FFC recommended that specific consideration be given to allocating funds to social welfare services in the provincial equitable share. <input type="checkbox"/> FFC proposal on the setting of norms and standards for the delivery of a defined minimum basket of social welfare services by provinces 2006/07	<input type="checkbox"/> Government agreed with the FFC proposal have increased the basic component to allow provinces the discretion to increase allocation to social welfare <input type="checkbox"/> Government agreed with the FFC and undertook to do a study to clearly define this basket of services
<input type="checkbox"/> The FFC recommended that Government should increase the rollout of social grants to cushion poor people from the effects of the economic downturn. 2010/11	<input type="checkbox"/> In order to assist Government in appropriately dealing with this tension, it would be useful if future recommendations by the FFC could provide guidance around appropriate grant values that will result in an optimal balance between coverage and available resources.
Education issues	
Proposed the incorporating of Early Childhood Development into the Education Component 2003/04	<input type="checkbox"/> Government accepted the recommendation and further indicated that the ECD grant is phased out, and the education component in the equitable share formula has been expanded for the 2004

	Budget to cover grade R by adjusting the age cohort to 5 – 17.
<ul style="list-style-type: none"> Proposed that, given that ECD is funded through the provincial equitable share, the education component should be augmented by at least the full amount of the current conditional grant. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 2004/05	<input type="checkbox"/> Government indicated that their approach is consistent with the FFC recommendation.
<input type="checkbox"/> Proposed that the National School Nutrition Programme be extended to secondary schools 2008/2009	<input type="checkbox"/> Even though government supported some of the observations put forward, it cautioned against decision to extend the programme to secondary schools. That Government's approach was to first seek improvement of the effectiveness and efficiency of the programme before looking at the possibility of extending it to secondary schools.
<input type="checkbox"/> The FFC recommended that learner support material be clearly defined and its meaning restricted to stationery, textbooks, learner and teacher aids. 2008/2009	<input type="checkbox"/> Government agreed that there should be separate line items for learner support materials and maintenance, repairs and equipment.
<input type="checkbox"/> The FFC recommended that government should review the method used to inform the national quintile ranking of schools. 2009/2010	<input type="checkbox"/> Government agreed with the FFC that the socioeconomic circumstances of learners should be taken into account. At the time the department was also working on a policy to provide assistance to schools up to quintile 5 that accommodate very poor learners. <ul style="list-style-type: none">
<input type="checkbox"/> The FFC recommended that national norms and standards for the provision of learner transport should be established. 2009/2010	<input type="checkbox"/> Government agreed that the functional responsibilities with respect to learner transport are those of the Department of Education, which is responsible for the provision of scholar transport, while the Department of Transport is responsible for regulatory requirements with respect to all public transport.
<input type="checkbox"/> Recommended that to assess the propoor impact of school funding	<input type="checkbox"/> Government agreed with the FFC on the recommendation to

<p>norms, the Department of Education should make publicly available and accessible the funding norms of no-fee schools in line with new provisions of the 2008 Division of Revenue Act requiring indicative allocations by school. 2009/2010</p>	<p>make public and accessible the funding norms of no-fee schools.</p>
<p><input type="checkbox"/> Government must, through input and output norms and standards, take reasonable measures to give effect to the inclusive education of intellectually disabled children. o These norms should indicate human, physical, administrative and regulatory resources provided by government dedicated to achieving targets for inclusive education. 2012/2013</p>	
Health issues	
<p><input type="checkbox"/> Proposed that Government should Review of health conditional grants the National tertiary services grant and the health professions. That the former be retained as a conditional grant and that the later have its conditions tightened <input type="checkbox"/> 2006/07</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal and went on to implement as proposed.</p>
<p><input type="checkbox"/> The FFC proposed that the hospital revitalisation grant be incorporated into the provincial infrastructure grant as there is a strong convergence of purpose between the two infrastructure conditional grants, and this may improve the efficacy of the hospital revitalisation grant. 2007/08</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal and further that such a move was envisaged to improve monitoring and evaluation.</p>
<p><input type="checkbox"/> The FFC recommended that greater emphasis be placed on improving the quality of service provided at clinics and funding the maintenance of existing primary health care facilities. 2009/2010</p>	<p><input type="checkbox"/> Government agreed that emphasis should be placed on improving the quality of health services provided at clinics</p>
<p><input type="checkbox"/> Recommended that health statistics for vulnerable groups –such as the</p>	<p><input type="checkbox"/> Government supported this recommendation and would like to</p>

<p>proportion of women with access to antenatal care; the availability, affordability and accessibility of health facilities for TB, HIV and Aids; and data concerning children, older persons and persons with disabilities – should be collected and improved using the South African Statistical Quality Assurance Framework.</p> <p>2009/2010</p>	<p>indicate that the Department of Health has proposed that a TB nationwide prevalence survey be conducted.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> The FFC recommended that whilst recognising the provisions of the National Health Act (2004) and current norms guiding the primary health care (PHC) system, there is a policy gap in respect of legislative provisions and norms and standards for a well-functioning public hospital system.</p> <p><input type="checkbox"/> The government must develop norms and standards that should address issues in relation to the public hospital system</p> <p>2010/11</p>	<p><input type="checkbox"/> The recommendations are in line with the thinking within the Department of Health and the move towards the proposed National Health Insurance (NHI)</p>
<p><input type="checkbox"/> Government should extend its ongoing efforts to reform health fiscal frameworks by taking into account the burden of disease giving rise to budget pressures, to cover:</p> <ul style="list-style-type: none"> • Review of funding for HIV/AIDS, opportunistic and other infectious diseases through a regular review of usage costs for chronic disease services in HIV/AIDS, TB, maternal and child health to inform resource allocations in public sector health care system. • Institutionalisation of a budget process that forces provincial health budgets to be based on estimations of needs of health care service users and holds provincial governments accountable for underfunding of hospitals and clinics. • Re-examination of distribution of resources between different levels of care without weakening the role played by tertiary hospitals, but also strengthening role played by primary health care in health system. • Certain functions, such as procurement, human resources and financial management, should be devolved to 	

<p>hospital management to boost efficiencies and better performance. 2012/2013</p>	
Data Issues	
<p><input type="checkbox"/> Proposed that Government should ensure that comprehensive information and data on each basic service and tax source at municipal-level be collected. 2005/06</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal and will explore how such a database can be established, and be accessible to key stakeholders.</p>
<p><input type="checkbox"/> The FFC recommended that a process for the collection of data on homelessness be initiated and that such data should be included in the housing formula as part of the indicators of housing need. 2008/2009</p>	<p><input type="checkbox"/> Government agreed to the recommendation that homelessness should be quantified.</p>
<p><input type="checkbox"/> Data available at local government level should be reviewed to ensure appropriate surveys or alternatives are available to account accurately for changes in demographics and other factors at municipal level 2012/13</p>	
Roads issues	
<p><input type="checkbox"/> Proposed that criteria and processes for classifying all roads and assigning each class of roads to the respective sphere of government or category of local government be developed as a matter of urgency. 2006/07</p>	<p><input type="checkbox"/> Government agreed that the process of reclassifying roads and their assignment to the various spheres of government should be completed,</p>
<p><input type="checkbox"/> The FFC proposed that all provinces should put in place a more effective road management system that will ensure that they are able to gather accurate data on road conditions 2008/2009</p>	<p>Government agreed with the proposal that provinces should put in place more effective road management systems and that such systems should guide resource allocation.</p>
<p><input type="checkbox"/> The FFC recommended that the process of classifying roads among the national, provincial and municipal spheres of government should be accelerated in line with</p>	<p><input type="checkbox"/> Government supported the recommendation that the road classification process be accelerated in line with the established framework. Delays</p>

<p>the classification framework already established. 2009/2010</p>	<p>could lead to unintended consequences, such as underinvestment in the function or lack of proper maintenance.</p>
<p>Housing issues</p>	
<p><input type="checkbox"/> Proposed that institutional and funding framework for housing delivery and alignment of new housing subsidies, municipal infrastructure and the local government equitable share to ensure the sustained delivery of basic services. 2006/07</p>	<p><input type="checkbox"/> Government agreed with the FFC proposal</p>
<p><input type="checkbox"/> The FFC recommended that there should be relaxation and flexibility on the (a) eligibility criteria for accessing the Social Housing Capital Restructuring Grant (SHRCG) to allow projects falling outside the Designated Restructuring Zones (DRZs) to access funding; (b) number of DRZs to respond to excess demand for rental housing; and (c) minimum unit size for redevelopments of existing buildings.</p> <p><input type="checkbox"/> The process of disbursing funds for rental housing within the housing sector should be made shorter to minimise time lags following the submission of approved project plans. 2010/11</p>	<p><input type="checkbox"/> The social housing programme is a targeted programme rather than a mass housing delivery programme with specific restructuring objectives. The restructuring aims to facilitate the further provision of private rental accommodation by the private sector in areas where no or minimal investment in rental housing is occurring, but it is required.</p>
<p><input type="checkbox"/> The FFC recommended that the Social Housing Regulatory Authority (SHRA) should improve the inter-sectoral coordination between various government departments responsible for integrated human settlement. 2010/11</p>	<p><input type="checkbox"/> The SHRA was established to focus on the regulation of the social housing sector in order to protect government's investment in rental housing. In terms of the Social Housing Act and the Rental Housing Act, national government should ensure that all spheres of government and other government departments are aligned to enable and support the development of rental/social housing.</p> <p>-</p>
<p><input type="checkbox"/> Government should conduct a broad-based review of the efficacy of current housing finance arrangements in meeting housing needs within the context of creating sustainable and more compact human settlements.</p> <p><input type="checkbox"/> Commission acknowledged recent</p>	<p>- Government accepted the recommendation</p>

<p>developments in the funding framework, including introduction of the Urban Settlements Development Grant. It believes that this creates an important opportunity for realignment of other funding instruments in the built environment, particularly the Integrated Housing and Human Settlements Grant. The Commission intends to review the design of the Urban Settlements Development Grant once further details about this programme are made known</p> <p><input type="checkbox"/> Government should actively and specifically pursue development of a more spatially compact urban form for cities, by developing and adopting appropriate policies and financing instruments.</p> <p>2012/2013</p>	
Energy issues	
<p>- The FFC recommended that government should work with the National Energy Regulator of South Africa to put in place a financing framework that deals effectively with electricity pricing.</p> <p>2009/2010</p>	<p>- Government agreed that the electricity (generation) price should reflect costs, efficiency, stability and, eventually, externalities – that is, reflect marginal rather than historical costs.</p>
Transport Issues	
<p><input type="checkbox"/> The FFC recommended that spending on public transport infrastructure for 2010 should be linked to broader city development plans.</p> <p>2009/2010</p>	<p><input type="checkbox"/> Government supported the recommendation that projects funded through the public transport infrastructure and systems grant should be selected based on full appraisal of economic, environmental and social costs/benefits.</p>
<p><input type="checkbox"/> Department of Transport should regularly update the South African National Household Travel Survey</p> <p>2009/2010</p> <p>-</p>	<p><input type="checkbox"/> Government supported the recommendation. Funding has been allocated to the Department of Transport to begin updating the National Household Travel Survey in 2011/12.</p> <p>-</p>
<p><input type="checkbox"/> Funding streams to the Municipal Land Transport Fund, and the potential financial implications resulting from the promulgation of the National Land Transport Act on</p>	<p><input type="checkbox"/> The regulation function for public transport is being developed in municipalities to support the alignment and coordination of investment and planning for</p>

<p>municipalities, should be examined by the Department of Transport and the National Treasury. 2009/2010</p> <p>-</p>	<p>public transport services. Changes to funding flows to improve coordination include the transfer of the public transport operations grant in the 2011 Division of Revenue Act.</p> <p>-</p>
<p><input type="checkbox"/> Conduct a review on costs associated with current urban form in selected cities with a view to improve land use patterns efficiencies 2012/13</p>	<p><input type="checkbox"/> The current system of transport subsidies is not linked to ridership levels in cities, nor does it cover the full cost of ridership, thus placing ridership risks with the cities. Government will consider possible further changes to the financing of urban housing and public transport. A key challenge is to improve service delivery while breaking down the apartheid settlement patterns that continue to marginalise the poor in cities. Cities will require capacity support to take on these new roles. Government looks forward to FFC analysis and recommendations on key fiscal issues, options and risks regarding this issue.</p> <p>-</p>
<p><input type="checkbox"/> PRASA and cities should ensure that investment projects on rail and roads infrastructure are aligned and coordinated along A and B corridors of the National Rail Plan. 2012/13</p>	<p>-</p>
Basic Service	
<p><input type="checkbox"/> The FFC Recommended that environmental health care be added to the list of basic services under the local government equitable share formula, and that a detailed ‘environmental health care package’ be developed. 2006/07</p>	<p><input type="checkbox"/> Even though government agreed to the proposal, it was of the view that its elements are adequately listed in the National Health Act (2003)</p> <p>-</p>
<p><input type="checkbox"/> The FFC recommended that increased funding be directed towards infrastructure programmes that are linked to basic services including water, health, electricity, roads, transport and communication. 2010/2011</p> <p>-</p>	<p><input type="checkbox"/> Government agreed with the Commission that investment should be targeted towards infrastructure that supported basic needs. Informed by the Medium-Term Strategic Framework (2009-2014), Government will continue with the infrastructure investment programme aimed at expanding and improving social and</p>

	<p>economic infrastructure to increase access, quality and reliability of public services. This will support economic activities while also contributing to the country's employment.</p> <p>-</p>
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2011/2012

<p><input type="checkbox"/> The FFC recommended that the qualifying income bands should be reviewed to ensure that individuals are not unfairly excluded from benefiting from the subsidy (due, for example, to increases in the cost of living). 2010/2011</p>	<p><input type="checkbox"/> Government acknowledged that there is great demand and need for affordable rental housing. It is important to note that the institutional subsidy qualifying criteria does not apply when the SHRCG is utilized in the social housing programme. There is however requirements to ensure that government's investment does benefit targeted income groups (those below R3 500 - R1 500) through cross subsidization with middle and higher income groups.</p>
<p><input type="checkbox"/> The FFC recommended that there should be an increased and stable flow of funds for maintenance, rehabilitation and addressing backlogs in the long-term. 2010/2011</p>	<p><input type="checkbox"/> This proposal was to be dealt with as part of the second phase of the review of the provincial equitable share which will, amongst others, review the possibility of including an economic services component</p> <p><input type="checkbox"/> The proposal to expand the existing Roads Coordinating Body (RCB) may have merit as it could improve the intergovernmental co-ordination and resolve issues such as Roads Infrastructure Framework of South Africa (RIFSA).</p>
<p><input type="checkbox"/> The FFC recommended that there needs to be a review of free basic water and sanitation subsidy and water tariff structures, to ensure that the shortcomings implicit in the current subsidy system do not outweigh the benefits. 2010/2011</p>	<p><input type="checkbox"/> Government agreed with the review of the water tariff structures. Specific legislation, regulations, policies and guidelines have been developed on water tariffs.</p>
<p><input type="checkbox"/> The FFC recommended that the sanitation strategy should target behavioural change in relation to sanitation practices by households, rather than the provision of infrastructure alone, premised on attaining certain health outcomes. 2010/2011</p>	<p><input type="checkbox"/> Government agreed and already implements this approach as the sanitation strategy focuses on both aspects, including behavioural change.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> The FFC recommended that</p>	<p><input type="checkbox"/> Government agreed to the FFC's</p>

<p>Government should consider establishing an independent National Water Regulator that would report to Parliament. The regulator will address the policy function from regulatory function within the water service sector that is as a result of overlapping of capacity support, oversight and policy-making functions within Department of Water Affairs.</p> <p>2010/2011</p>	<p>recommendation on the establishment of an independent National Water Regulator subject to the actual cost of the proposal and affordability thereof being known up-front and any lessons learned from the regulation of both bulk and retail electricity being taken into account.</p> <ul style="list-style-type: none"> •
<p>Inter Governmental and Fiscal relations</p>	
<p><input type="checkbox"/> Recommended that the Department of Provincial and Local Government’s framework on the assignment of powers and functions to local government and the instruments that give effect to the framework should be finalised as a matter of urgency.</p> <p>2006/07</p>	<p><input type="checkbox"/> Even though government agreed to the recommendation, it indicated that not every function lends itself to tightly defined norms and standards.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> National and provincial government departments, agencies and other organs of state should eliminate duplicate data requests submitted to municipalities.</p> <p>2009/2010</p>	<p><input type="checkbox"/> Government agreed to the recommendation and indicated that a national coordinating body already exists in the form of the Local Government Data Collection Forum that was established in response to the need to rationalise data collection from local government.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> The FFC recommended that local government should be central to setting the agenda for capacity building programmes in recognition of the fact that municipalities remain accountable for their own performance until such time as section 139 of the Constitution is invoked.</p> <p><input type="checkbox"/> Commission also recommended that government must establish an intergovernmental wide framework for understanding what constitutes a lack of capacity within the context of local government.</p> <p>2010/11</p>	<p><input type="checkbox"/> While government agreed that municipalities should participate more in setting the capacity building agenda, government has a key role to play in identifying and designing capacity building initiatives that support the roll-out and compliance with the norms and standards.</p> <p><input type="checkbox"/> Although there is merit that capacity programmes should be informed by a local government performance management system which is driven by Key Performance Indicators, it would be difficult to implement this recommendation at this stage as at present only a very limited number of municipalities have operational performance management systems in place.</p> <ul style="list-style-type: none"> •
<p><input type="checkbox"/> In the short term, government should continue to strive for fiscal consolidation through restricting the growth in entitlement spending to programmes that have</p>	<p><input type="checkbox"/> Government agreed that the implications of the global economic crisis and reduced fiscal space necessitate fiscal consolidation. Government has refocused</p>

<p>demonstrably worked</p> <ul style="list-style-type: none"> □ Government should refocus expenditure to ensure better coordination and deepen access to improved service quality. □ In particular the Commission recommended: <ul style="list-style-type: none"> • Continued expansion of child support grant and old age pension grant • Sustaining the high levels of access to education and health services • Reprioritising expenditure towards repair and maintenance. □ In the medium to long term, government should: <ul style="list-style-type: none"> • Introduce a block grant for education, health and social development that funds clearly defined and costed outcomes in these areas • Enable independent cost effectiveness and quality review of both public and private education, health and social wage <p>2011/12</p>	<p>existing budgets towards government priorities and more efficient spending.</p> <ul style="list-style-type: none"> • The number of social grant beneficiaries has more than tripled between 2002/03 and 2010/11 • The majority of additions to baseline over the 2011 MTEF target health, education, roads and the eradication of informal settlements. • Government is finalising asset registers as it implements the Government Immovable Asset Management Act (2007) to ensure that infrastructure assets are properly maintained. <ul style="list-style-type: none"> □ Government considered the proposal on block grants as part of the provincial equitable share review, and it has concluded that block grants are potentially unconstitutional. □ Government agreed that independent cost effectiveness and quality reviews should be undertaken. The Ministry of Performance Monitoring and Evaluation would perform such reviews in the period ahead
<ul style="list-style-type: none"> □ National, provincial and local government should further reprioritise expenditures in respect of Equitable Share and Conditional Grants for 2012/13 to move towards attaining the MDGs. <ul style="list-style-type: none"> o Government should prioritise MDG 2 (universal education) and MDG 6 (HIV indicators) in the interim as their attainment will have positive impacts on other MDGs (positive spillovers). o Time frame for attaining all outstanding MDGs simultaneously should be extended beyond 2015 to make the task feasible. □ National and provincial treasuries' efforts to improve the credibility of municipal budgets through annual benchmarking exercises should continue to be supported. □ National government should specifically enforce provisions set out in S74(2) of Municipal Systems Act, such that the basis of municipal tariffs accurately reflects the cost of providing the specific service, as well as conforms to National Treasury expenditure guidelines for repairing 	<ul style="list-style-type: none"> • Government acknowledges that for South Africa to achieve a more inclusive and equitable economic future, rapid progress is needed and has set out five priorities, namely, education, health care, fighting crime, rural development and creating jobs. These priorities are reflected in the 12 outcomes and associated outputs adopted by government. The 2012 Budget process takes Government's twelve outcomes and their associated output targets and service delivery agreements as the framework that underpins public expenditure priorities. One of the key government priorities targeted at attaining the Millennium Development Goals is health, including HIV and Aids. The emerging policy framework of the New Growth Path and the urgency of accelerating employment creation are central to Government's medium

and maintaining municipal infrastructure.

□ National and provincial government should require and assist municipalities to identify the primary cause of poor performance in billing and revenue collection functions and use the information to design appropriate remedial strategies.

- Subsequently, municipalities should establish municipal service districts to facilitate improved performance.
- As an interim measure, government should establish and publish guidelines for municipalities on management of municipal consumer debt in terms of, but not exclusive to, interest charges, debt impairment and writing off of bad debts.
- S64 of MFMA (No.56 of 2003) should be amended to require regular collation and updating of information on indigent residents of a municipal area, as an integral component of municipal revenue management practices.

□ National and provincial government should develop and support peer learning and support programmes that assist poorly performing municipalities to leverage experience and best practices of well-performing municipalities, particularly in relation to spending performance, efficiency in using resources, proper debt management and achievement of desired developmental outcomes.

□ Government should finalise implementation of OSD and formalise the performance evaluation system.

- In doing so government should:
- Be mindful of rising public sector wage bill relative to other priorities.
- Rethink funding of personnel costs which are centrally determined but funded by provinces through PES.
- Full costing of OSD implementation must be undertaken and national government must take responsibility for funding, preferably through a specific purpose conditional grant.
- Formalise performance evaluation with aim of boosting performance by

term strategic outlook. Government is therefore actively pursuing significant capital investments in public infrastructure and exploring mechanisms that will improve the state's capacity to accelerate roll out of social and economic infrastructure.

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<p>emphasising high competence of education and health personnel.</p> <p>Increases in education spending should be directed towards investments that will have biggest impact on quality - this includes learner and teacher support materials. Government should improve quality and prioritise epistemological access to education</p> <ul style="list-style-type: none"> □ Coordination, financing and provisioning of scholar transport should be improved. <ul style="list-style-type: none"> • All resources associated with delivering a service associated with scholar transport are transferred to Department of Transport, including current assets and budget and all future resources. • A thorough assessment of financial and fiscal implications of this shift is conducted before the shift happens. □ The governance and institutional arrangements for rural development across the three spheres of government needs to be clarified urgently. □ The Commission recommended that a functional mapping of all rural development activities be undertaken, with specific responsibilities assigned to each sphere of government. □ The fiscal framework (both the equitable share and conditional grant allocations) for rural and agricultural development must be reviewed. <ul style="list-style-type: none"> - In particular, government should merge current conditional grants into a comprehensive agriculture and rural development finance programme, preferably administered by one department. In order to improve the focus, targeting and impact, and reduce transaction costs in the administration of conditional grants □ Government should take steps to ensure that all mandates have a legal basis. □ The functions performed by each sphere of government must have a secure legal footing. □ Government should develop a time-bound programme to regularise the functional assignment of libraries and museums. 	
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<p>□ Government should undertake a review of the extent of compliance with legal procedures for the assignment and delegation of functions, as set out in the Intergovernmental Fiscal Relations Act, the Financial and Fiscal Commission Act, the Division of Revenue Act and the Local Government Municipal Systems Act.</p> <p>□ In particular, it is recommended that compliance with the following legal requirements are assessed:</p> <ul style="list-style-type: none"> • The financial and fiscal implications of a function shift on the sphere of government or organ of state. The organ of state initiating a general assignment must provide these implications to the Commission for its recommendations to the Minister of Finance in line with Section 3 of the FFC Act 2003 as Amended and the Minister of Finance. The Commission tabled a compliance check list for this specific purpose in 2007. • All resources associated with delivering a service associated with a function to be shifted are transferred. These should include current assets, budgets and all future resources. There must be evidence of a decision taken by the Executing Authority of the assigning or delegating department or organ of state that this is acknowledged and pledged. <p>2012/2013</p>	
<p>□ Over the medium term, government should continue with a gradual programme of fiscal consolidation that entails reducing moderately but consistently the budget deficit.</p> <p>o Such efforts to preserve fiscal sustainability must be sustained in future, even with addition of longer-term programmes such as NGP and proposals for NHI.</p> <p>□ The Commission supported government proposals to implement fiscal rules.</p> <ul style="list-style-type: none"> • The proper implementation of fiscal rules (guidelines) can contribute to 	<ul style="list-style-type: none"> • Government welcomed the recommendation as it broadly supports current policy thrusts. Fiscal policy will continue to be developed on the basis of the fiscal guidelines published in the 2011 Budget Review. As part of developing the fiscal guidelines National Treasury has committed itself to prepare a long term fiscal report. The report, to be published during 2012, will aim to encourage public discussion and greater parliamentary oversight of revenue

<p>and complement existing fiscal policies.</p> <ul style="list-style-type: none"> □ Government should continue strengthening the equity focus of the current system of intergovernmental transfers, in particular in health and education sectors. <ul style="list-style-type: none"> • The existing transfer system is not the most effective instrument to support government’s growth objectives, and this aspect should continue to be strengthened so that it plays a supportive role in this respect. • Government should actively and specifically continue pursuing implementation of significant capital investment in public infrastructure that has a positive impact on total factor productivity and employment in the context of the NGP □ Government should review the Commission’s analytical work on the fiscal and economic costs of the current urban form of cities and guide the Commission as to the further development of these analytical methods. <p>2012/2013</p>	<p>and expenditure trends over the long term, and consider how to improve the institutional basis of the fiscal guidelines.</p>
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Local Equitable Share

<ul style="list-style-type: none"> • Recommended that the structure of the Local Government Equitable share formula should be based on constitutional requirements and proposed the following formula: $LES = S + B + I + T + m$ <p>□□□□ 2005/06</p>	<ul style="list-style-type: none"> □ Government agreed with the broad approach proposed by the FFC on the structure of a new formula. However government does not believe the practicality of considering a spillover grant (m) and a component to fulfill other constitutional and legislative requirements. <ul style="list-style-type: none"> •
<ul style="list-style-type: none"> □ Proposed that consideration should be given to applying a revenue raising-capacity measure to the Local Government Equitable share formula as a whole, rather than only on the I-component. <p>2005/06</p>	<ul style="list-style-type: none"> □ Government accepted the FFC proposal and further indicated that this proposal is given effect in the new formula. <ul style="list-style-type: none"> •
<ul style="list-style-type: none"> □ The FFC proposed that the development component not be incorporated in the local government equitable share formula as it will not result in an overall 	<ul style="list-style-type: none"> □ Government agreed with the FFC proposal and that it would welcome proposals from the FFC as to how this should be done

<p>increase in the local government equitable share but will result in the realignment of the relative shares within the same envelope. 2006/07</p>	
Infrastructure issues	
<p><input type="checkbox"/> Recommended that the financing of the 2010 FIFA World Cup should be done in a manner that does not adversely impact on the considerations in section 214 (a-j) of the Constitution.</p>	<ul style="list-style-type: none"> • Government undertook to take steps to ensure that the costs of hosting the World Cup remain reasonable •
<p><input type="checkbox"/> Government should implement a fully comprehensive national infrastructure maintenance strategy, especially for those infrastructure classes with a high impact on unemployment and poverty, with dedicated maintenance objectives.</p>	<ul style="list-style-type: none"> • In order to improve infrastructure planning and delivery, Government established the Infrastructure Delivery Improvement Programme (IDIP). •
	<ul style="list-style-type: none"> •

Rejected Recommendations

History: 1995 – 2009 Financial and Fiscal Commission	
Provincial Equitable share issues	
FFC’s Recommendations	Government’s Response
<ul style="list-style-type: none"> • 2001/2002 A costed norms methodology for calculating the provincial equitable share was proposed and it suggested that basic services be defined in terms of cost per beneficiary, with allowances made for variations in the cost of delivery for different target groups and the inclusion of policy parameters; trade-offs were noted in the provincial budget allocation between providing for basic services (S), fixed institutional cost (I) and other functions (B). <p>2004/2005 The formula used to allocate the education component of the equitable share should be revised to end the double weighting of school age children.</p> <p>2004/2005 For health care services the formula should be revised to take account of gender and age profile of the population in order to reflect differential needs of health care services. The national department should ensure that data on health care utilization rates for different population groups is regularly collected.</p> <p>2004/2005 To address certain equity and efficiency considerations, the provincial equitable share formula should be revised to account for</p>	<ul style="list-style-type: none"> • Lack of appropriate data, viz. desired output measures, policy parameters and costs of inputs did not exist. Calculating budgets for health, welfare and education at national level undermines provincial autonomy and may weaken accountability. The costed norms approach will create perverse incentives with provinces distorting their funding levels. Maintaining consistency in the costing of policy norms for different sectors would also be difficult to achieve. The approach would reinforce cost-raising tendencies and unrealistic expectations of additional funds. The approach may also result in bias towards those services that can be costed. The costed norms approach should serve as a tool for analyzing expenditure. • Government indicated that there are still good arguments for retaining the school age cohort in the education component. It will therefore be retained although at a reduced weight. • As part of the equitable share formula review, government explored the possibility of using age and gender profiles, as well as taking into account health utilization rates. Data required to make such a change in the formula are not readily available. Furthermore, the proposed use of data on differential utilization for different age groups varies in the manner in which it is collected across health institutions. • This is difficult to implement as

relevant cost disabilities of provinces.	many services delivered by provinces do not lend themselves to succinctly defined standards to allow calculation of cost differential.
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History: 1995 – 2009 Financial and Fiscal Commission Rejected Recommendations	
Tax issues	
FFC's Recommendation	Government's Response
<p>2002/2003</p> <p>In assessing the Provincial Tax Regulation Bill (2001), it was proposed that the bill</p> <ul style="list-style-type: none"> ○ specify criteria against which the Minister measure provincial tax proposals ○ clarify the implications and procedures relating to capacity limitations on SARS in advance ○ allow provinces maximum flexibility in determining tax rates within tax rate bands –develop guidelines with regard to tax room and equalization measures, where certain taxes have implications for the equitable share revenue pool ○ specify regulations for dispute resolution, especially where a province may fail to reach an agreement with SARS on certain tax proposals ○ Include a clause for dealing with the impact of a proposed provincial tax or surcharge on local government finance. 	<ul style="list-style-type: none"> ● Some of the recommendations could not be taken into account in the Act since they did not deal with specific provincial taxes but with the process to approve tax proposals.

History: 1995 – 2009 Financial and Fiscal Commission Rejected Recommendations	
IGFR issues	
FFC's Recommendation	Government's Response
<p>2002/2003</p> <p>In assessing the Disaster Management Bill (2001), FFC proposed that a more defined legal basis for the central contingency reserve be provided and that a contingency reserve in a relevant budget year be allocated for two emergency purposes, viz. macroeconomic stability and response to natural or human disasters.</p> <p>2007/2008</p> <p>Proposed that any additional costs faced by provinces and municipalities that cannot be met through the revised equitable share allocations be funded through a once-off allocation from national government.</p>	<ul style="list-style-type: none"> Contingency reserve is for the possibility that funds may be required for unforeseeable and unavoidable expenditure. It should not be confined to cover specific emergencies related to macroeconomic stability or human-made disaster. Furthermore, government accepts responsibility for emergencies and disaster that call for resources beyond the capacity of provinces or local authorities. Government rejected recommendation indicating that there are should not be any additional cost to the state as there is no net loss or increase in the population of the country.
	<ul style="list-style-type: none">
LES issues	
<p>2004/2005</p> <p>Government should consider two broad options with respect to ceding the equitable share of local governments. Either the MFMA is amended to ensure safeguards or in light of the Constitution, issue guidelines to municipalities on ceding their equitable shares.</p>	<ul style="list-style-type: none"> Government indicated that it is too early to amend the MFMA and FFC's proposal has not taken into account the comprehensive consultation process required before municipalities cede their equitable shares.
Grant issues	
<p>2007/2008</p> <p>The FFC proposed that the hospital revitalisation grant be incorporated into the provincial infrastructure grant as there</p>	<ul style="list-style-type: none"> Government indicated that it may remain prudent to maintain separate funding streams for selected specific

is a strong convergence of purpose between the two infrastructure conditional grants, and this may improve the efficacy of the hospital revitalisation grant.	purpose grants in the immediate to medium term
<p>2007/2008</p> <ul style="list-style-type: none"> The FFC Recommended that the land care and the comprehensive agricultural support programme (CASP) grants be merged into a single Schedule 4 grant as their objectives overlap. 	<ul style="list-style-type: none"> Government rejected this recommendation as it is of the view that the two grants have different objectives. The CASP targets agricultural extension services to beneficiaries of the land reform programme, while the land care programme seeks to promote the sustainable use and management of natural resources.
<p>2007/2008</p> <ul style="list-style-type: none"> The FFC Recommended that the municipal infrastructure grant go beyond funding the B (Basic residential infrastructure), P (Public municipal service) and E (Social institutions and micro enterprise) components in the formula. 	<ul style="list-style-type: none"> Government rejected this recommendation as it is incumbent upon each municipality to make provision for operations and maintenance in their budgets according to the provisions of section 17 (2) of the Municipal Finance Management Act (2003) (MFMA).
Housing Issues	
<p>2007/2008</p> <ul style="list-style-type: none"> Proposed that the housing subsidy formula should, as much as possible, use variables that take account of provincial disabilities and peculiarities, as this will, to a large extent, eliminate bias 	<ul style="list-style-type: none"> Government rejected the recommendation citing that the housing formula should recognize variation in regional cost. It would be difficult to accurately determine such variation, given that there are variations between and within provinces
Basic Services issues	
<p>2007/2008</p> <ul style="list-style-type: none"> The FFC Recommended that 	<ul style="list-style-type: none"> Government refrained from committing

<p>government revise the estimated cost of basic services (R130) per poor household per month as it is not sufficiently close to the true cost of providing basic services across a range of municipalities. The commission proposed that government consider raising the estimated cost to R175.</p>	<p>to the recommendation indicating that the LES remain a subsidy that is determined in the context of affordability and after making trade-offs with other national priorities in the normal budget process.</p>
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FURTHER WORK	
FFC's Recommendations	Government's Response
<ul style="list-style-type: none"> • 1996/97 (PES) Recommended that total provincial allocations be divided by means of a transparent and equitable provincial grant formula. 	<ul style="list-style-type: none"> • Further research was needed to establish an agreed basis for assigning weights to the different components.
<ul style="list-style-type: none"> • 1996/97 (IGFR) Provinces should raise own revenue by imposing surcharge on personal income tax. 	<ul style="list-style-type: none"> • Further investigation is required on proposed surcharge on personal income tax.
<ul style="list-style-type: none"> • 2001/2002 (Basic Services) Proposed that the basic, backlogs and economic activity be combined into one B element, and a new conditional grant to support the eradication of capital backlogs be funded out of the equitable share. 	<ul style="list-style-type: none"> • There was a need to develop a framework around capital grants.
<ul style="list-style-type: none"> • 2001/2002 (Local Government) Revenue accruing to district municipalities from RSCs should be kept with that sphere after the reform process. Any new revenue instrument chosen be subject to local control, RSCs be converted into a general revenue source for district municipalities. 	<ul style="list-style-type: none"> • Further work was necessary on municipal revenue instruments both in the context of RSCs and broader local government restructuring.
<ul style="list-style-type: none"> • 2002/2003 (Local Government) On implications of electricity restructuring for municipalities, FFC proposed consideration to introduce a 'local government levy' for large customers and that the levy be imposed by national government and be disbursed through the LES. 	<ul style="list-style-type: none"> • Such new mechanisms needed to be investigated further, including its impact on large industrial customers.