

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 124

DATE OF PUBLICATION: 26 MARCH 2010

Mr T D Harris (DA-WC) to ask the Minister of Finance:

Whether the National Treasury has undertaken a review of the national fiscal transfer system; if not, why not; if so, (a) what are the terms of reference of the review, (b) what is the mandate of the review in respect of (i)(aa) provincial and (bb) local government equitable shares and (ii) conditional grants, (c) what is the timeframe for the completion of the review and (d) what is the role of the (i) provinces and (ii) Fiscal and Finance Commission in the review?

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REPLY:

The national fiscal transfer system is reviewed (technical revisions) on an annual basis to ensure that all spheres of government are properly resourced to perform their functions. More comprehensive reviews (policy reviews) are also undertaken as and when appropriate. Detailed discussions of the (technical and policy) revisions to date are contained in Annexure E/W1 to the annual Budget Reviews and annual Division of Revenue Bills. With respect to reviews that will impact on future budgets (2011 Budget onwards):

(a) The terms of reference/scope of the reviews are:

Provincial Equitable Share

- Address the responsiveness to the changing needs and priorities of provincial governments.
- Determine how the current equitable share formula should be amended to better address the funding needs of provinces, including meeting nationally prescribed norms and standards.
- Determine how the various components in the equitable share should be measured/costed, for example through a proxy approach or costed norms approach.

- Ascertain whether the provincial equitable share should factor in the differences between provinces, such as geography, topography, population densities, literacy rate, infection rates, urbanisation, rurainess, that could impact on their ability to progressively address social services needs.
- Establish what the relationship should be between equitable share allocations and conditional grant allocations in funding sector priorities.
- Determine how economic functions should be funded.

Local Government Equitable Share

Since its first introduction in 1998/99, the local government equitable share formula has been restructured several times. The future review of the local government equitable share formula will be directed towards;

- better coverage of the service delivery responsibilities of the various types and categories of municipalities.
- factoring in the governance and administration structures as well as the developmental needs of poorly resourced municipalities.
- data updates.
- any outcomes of policy reviews that impact on the funding of local government.

Conditional Grants:

The review of conditional grants currently in the system will amongst others focus on:

- determining whether the programmes/project funded through these grants are appropriately funded through conditional grants, i.e address the problems of spillover benefits and /or deal with the funding of programmes identified as matters of national priority that still need to be institutionalised in provinces or municipal budgets.
- verifying whether there is any duplication with any other conditional grants currently in the system.
- ascertaining whether a grant does not place an undue and administrative burden on provinces and/or municipalities to access such funds and comply with the reporting requirements of such grants, and
- determining the approach lifespan of a conditional grant prior to ascertaining whether such grant should be disbanded and/or such funding being phased into the equitable share.

(b) The mandate of the reviews are:

(i) Equitable Shares:

(aa) Provinces

Cabinet endorsed the recommendation of the Budget Council during 2007 that a comprehensive review of the provincial equitable share formula be undertaken.

(bb) Local Government

Cabinet endorsed the recommendations of the Budget Forum during 2008 and 2009 that a review of the local government fiscal framework and equitable share formula be undertaken.

(ii) Conditional Grants:

During the hearings on the 2009 Division of Revenue Bill, the Financial and Fiscal Commission raised a concern that there are too many conditional grants in the system.

(c) Timeframes

The review of the provincial equitable share and fiscal framework should be completed in time for the 2011 Division of Revenue. As various reforms are underway that could impact on the future financing of local government, the review of the local government equitable share and fiscal framework will require a longer period for implementation. Reforms will therefore be introduced in a phased manner.

(d) Roles of:

(i) Provinces

Provinces form part of the review of the provincial equitable share formula and fiscal framework and are represented on various task teams that have been established to address various aspects of the review. Regular progress reports on the review are also made to the Technical Committee on Finance (official level) and the Budget Council (political level).

(ii) Financial and Fiscal Commission

The Financial and Fiscal Commission forms part of the review of the provincial equitable share formula and fiscal framework.