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State should intervene in provinces sooner

Central government needs more power in cases of financial failure, writes Setumo Stone

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FIXING the shortcomings in the Public Finance Management Act is the first step to improving management of provincial budgets.

So says the Financial and Fiscal Commission, in its assessment of national intervention measures in financially distressed provincial governments, as have been undertaken in Gauteng, Limpopo and the Free State.

The commission's acting CEO, Bongani Khumalo, says the cases of the three provinces demonstrate that no province is immune to a financial emergency.

He says more provinces could be prone to interventions if the guidelines were clear. This is backed up by the findings of the auditor-general's 2010-11 provincial report — some of which partly led to the intervention in the provinces concerned — that fiscal ill-discipline is not confined to a few provinces, but is found across all of them.

The Public Finance Management Act is a 12-year-old law that guides the use of national and provincial funds.

It has been praised for setting high standards.

But critics point out that it does not distinguish between financial crises and other failures within provincial departments.

The commission found that most provinces had difficulties with financial management, shown by the R4bn expenditure on salaries across all nine provinces. Salaries are the main driver of budget deficits, with some departments, especially the education departments, spending as much as three quarters of their budgets on staff payments, instead of the department's core business.

"The biggest concern with unauthorised spending and overspending is that funds are not necessarily spent in areas that benefit the public at large, but in the main to feed the ballooning personnel expenditure," says Mr Khumalo.

The commission, which was established to make recommendations on fiscal policy and to assess the effect of government policies, has suggested that some of the rules governing provincial administration be changed to allow the central government more powers to intervene quickly.

The commission says there is an urgent need to stabilise provincial finances and avert the possible collapse of essential services.

However, the framework for intervention at provincial level is less developed than that of local government, Mr Khumalo says.

The key difference is that the Municipal Financial Management Act obliges the central government to step in if provinces are unwilling or unable to intervene in fiscally distressed municipalities.

But the Public Finance Management Act leaves the intervention to the discretion of central government, making it "potentially more open to subjective decisions by national government.

This could result in delaying appropriate interventions, allowing a further worsening of financial conditions, or inappropriately applying that intervention."

This could explain why the central government's intervention in Limpopo has become a political hot potato for the ruling African National Congress (ANC).

Limpopo had been leading the campaign to unseat President Jacob Zuma at the ANC's electoral conference later this year, and the intervention in the province was seen as an attempt to strengthen Mr Zuma in the succession race.

"There is a missing link in terms of the manner in which the intervention was invoked," says Makonde Mathivha, spokesman for the ANC in Limpopo. The government is constituted by the party that won elections, and whatever is done must be done through the ANC, says Mr Mathivha.

Mr Khumalo says a clear framework could be helpful to avoid people crying foul, "so that everybody knows when the point for intervention to kick in comes".

The commission also found that the institutions responsible for overseeing and managing the budget of provinces are weak.

Mr Khumalo expects that the government will address the concerns raised in the report through parliamentary processes.

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