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Sharing national cash

To ensure adequate funding of the various provinces, the cost of delivering services has to be taken into account, writes **Albert van Zyl**

THE Financial and Fiscal Commission (FFC) recommendations for the period from 2001 to 2004 have a particular bearing on the way the provinces are funded.

The FFC has proposed that the provincial shares of nationally raised revenue be determined by costing the services that provinces are obliged to deliver by national policy, the relevant legislation and the Constitution.

We argue that while this approach is not practical in the short term, it can be used to refine the existing national Treasury formula for the division of revenue between the provinces.

The FFC approach is in stark contrast to the existing formula that divides revenue largely on the basis of what provinces spent on service delivery in the past and some limited indicators of the need for provincial services.

The disadvantage of the existing formula is that it does not assess whether provinces are adequately funded as a whole nor does it take account of the variable costs of service provision in different provinces. The FFC proposes that the total provincial share of revenue and the division of this share between provinces be calculated by first determining which services and which levels of service provinces are obliged to perform and then costing these service delivery obligations.

In this way both the total provincial share of nationally raised revenue and each province's slice of this cake will be "built-up" from what it costs provinces to deliver services. While the principles embodied in this approach have generally been accepted, three problems hamper its implementation. In the first place it is not always clear which services provinces are mandated to perform.

While it is clear that provinces are legally bound to pay out social security grants, it is not clear that they are obliged to provide affordable old-age homes. Where this is clear, it is not certain at which levels they are expected to provide these services. Provinces have some obligation to provide textbooks, but it is not clear what an acceptable level of textbook provision would be.

Cases on the socio-economic rights of citizens in front of the Constitutional Court have served to highlight these uncertainties.

Secondly, insufficient data are available to accurately assess the costs of provincial service delivery. For example, no data is available on what it costs provinces to provide secondary healthcare services.

Thirdly, the FFC has not yet costed national and local government service delivery mandates. Until this has been done, basing the provincial share on a costing exercise may bias the division of revenue towards provinces. Given these difficulties, it is unlikely that the FFC proposals will be implemented in the short term.

In addition the Budget Council, chaired by the Minister of Finance, recommended in April that the basic structure of the existing Treasury formula be retained until 2004.

While this decision appears to pre-empt the debate on the FFC recommendations, we argue that these recommendations could still be used to refine the current formula, while retaining its basic structure.

The FFC recommendations clearly advance the debate on the appropriate division of revenue between provinces.

It provides valuable indicators of the variable costs in delivering services in different provinces. Incorporating these refinements into the existing formula promises greater equity in the horizontal division of revenue between the provinces.

The education component of the existing formula presumes that it costs the same to bring a pupil to an acceptable level of basic education,

regardless of the province. The FFC correctly argues that it is more expensive to educate rural, poor or disabled pupils. Its proposals in this regard can be used to refine the existing formula without requiring unavailable data. Such refinements will allow the formula to take account of the variable impact of such cost drivers across the provinces.

In the health sector component the same scenario repeats itself. While the current formula distinguishes only between medical aid and non-medical aid users, the FFC argues that variable utilisation rates of health services across the provinces are better determined by also looking at the number of women, children and elderly people present in each province. Again reliable data to make such refinements are available.

In the welfare component of the current formula only the need for three of the six social grants is taken into account. The FFC proposes that we take the need for all six categories of social security grant into account.

Especially is the inclusion of the foster care grant in the calculation of the welfare component to be commended since the demand for this grant is likely to increase in line with the increase in HIV/AIDS related deaths

In this way the impact of HIV-Aids on the demand for provincial services can begin to be addressed.

In all three the social service components of the current formula the FFC proposals can be used to refine the calculation of the relative needs of the nine provinces.

As is pointed out above, none of these refinements would require any unavailable data. Such refinements will allow the formula to direct available funds to the areas of greatest need. In this way progress could be made in addressing persistent service delivery backlogs.

Preliminary analyses by Idasa have confirmed that provinces with the greatest backlogs, such as Eastern Cape and Northern Province, stand to gain the most if the FFC proposals impact significantly on the current formula.

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