Business Day 4 March 2003

Body calls for clarity on contingency fund

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CAPE TOWN — The Finance and Fiscal Commission has raised concerns about government's burgeoning contingency reserve which is projected to increase from R3bn this year to R8bn in 2005-06.

The commission, a constitutional body which advises the national treasury on the allocation of funds between the spheres of government, believes that the extra R5bn, over and above this year's R3bn constitutes discretionary funding for government to address policy issues without this being clearly stated.

The budget review tabled in Parliament last week stated that the additional contingency reserve allowed for unforeseen expenditure in-year and new policy priorities in future years. Opposition MPs have voiced concern about the reserve being in effect a discretionary fund for government over which Parliament will have no appropriating powers.

Commission parliamentary liaison manager Hildegarde Fast said while it was good for government to have the flexibility to fund changing priorities, it needed to make the different uses of the contingency reserve clear so as not to mislead the public. The contingency reserve should also not be used for unforeseen and unavoidable expenditures.

In a presentation to Parliament's finance committee yesterday on the Division of Revenue Bill, the commission argued that the contingency reserve should have a more defined legal basis, and that it be allocated for two emergency purposes only, namely macro-economic stability and natural or human disasters.

In addition, the R5bn allocated to new spending priorities in the outer years of the medium term expenditure framework should be categorised separately as a "policy reserve". However, while government agreed with the thrust of the proposals, it saw no need to divide the contingency reserve into a "policy reserve" and a "contingency reserve", saying that not specifying amounts gave it more flexibility.

Deputy chairman Jaya Josie said the commission would conduct a comprehensive review of current formulae for allocating funds to municipal and provincial governments next year. This review would be based on the findings of the 2001 census.

National treasury deputy director-general for intergovernmental relations Ismail Momoniat added that the entire financial framework for local government would be reviewed. This would include a review of the regional services council and municipal service levy.

A commission analysis of expenditure patterns determined that provincial budgets had been declining in real terms over the past five years when budget deficits had switched into surpluses. Provincial spending had shown a real decline of 1,19%, which considered against the projected 1,96% increase in population over the period translated into a real decline of 1,35% per annum in per capita spending. Josie said this was partly because the spending was spread over more people.

Only health and welfare spending had increased because of the take-up of the child support grant and the impact of HIV/AIDS on health services. "Spending on education, housing and other services have all declined in real terms. This is projected to change over the forthcoming medium term with real increases in all services assigned to provincial governments."

Education spending by provinces was affected by a combination of declining enrolments and fiscal resource shifts towards basic education. This translated into a national average real growth in spending per learner of 1,94% per annum between 1997-98 and 2001-02. On average real and secondary health care spending per capita declined by 1,33% per annum in this period despite higher than average real growth of spending on these basic health services. Expenditure on housing declined nationwide by an average of 7,32%.

Also, average annual take-up rates had generally exceeded the real rate of growth in social security spending. There had been a decline in real spending per beneficiary of 9,28% per annum because there were more social security beneficiaries taking up the child support grant.