



Press Release

10 July 2012

The PFMA is failing to improve provincial financial management

For an Equitable Sharing of National Revenue

Midrand, July 2012 – The Financial and Fiscal Commission (the Commission) submitted to the National Council of Provinces' (NCOP) Limpopo Multi-Committee Delegation today a submission on national intervention in financially distressed provincial governments. The financial stability of South Africa's provinces is a matter of public interest because of recent events. National government has had to step in to stabilise provincial finances and avert the possible collapse of essential services in several provincial departments, in Gauteng, the Free State and Limpopo. These cases demonstrate that no province is immune to a financial emergency.

The interventions currently underway are the product of the nature and design of South Africa's intergovernmental fiscal system and the lack of adherence to established accountability frameworks. The implementation of the current Public Finance Management Act of 1999 (PFMA) is failing to fully address provincial financial management challenges. The Commission's submission examines the current fiscal position of provinces, discusses the special Section 100 interventions and offers recommendations for improving incentives and provincial fiscal governance.

The Commission is of the view that the effectiveness (or otherwise) of provincial intervention faces regulatory, structural, incentive- and capacity-related challenges. Its recommendations include reviewing the institutional and legal framework, in particular bringing the PFMA in line with the local government intervention framework. Further, the Commission recommends reengineering the current accountability framework, strengthening oversight bodies, improving financial management capacity and information, and enforcing the rule of law.

An array of financial difficulties confronts provincial governments today. The challenges range from the inefficient use and allocation of resources to revenues that are inadequate to meet the expenditures mandated by the Constitution and demanded by the people. Exacerbating the problem is the lack of provincial accountability for raising revenue and the lack of control over remuneration levels (provinces spend on average 75% of their budget on personnel expenditure) because of centralised wage bargaining.

Provincial governments need to be financially functional if they are to fulfil their traditional role as effective institutions for social change. However, financial and service delivery breakdowns undermine the socio-economic rights of poor citizens who are disproportionately dependent on public services. Similarly, large, accumulated, irregular expenditures and overspending will affect government's ability to meet its future obligations.

To read the submission, go to:

<http://www.ffc.co.za/index.php> or

http://www.ffc.co.za/index.php/component/docman/doc_download/297-ffc-submission-on-s100final9-july-2012-.html

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