

FINANCIAL AND FISCAL COMMISSION

POLICY BRIEF

Improving Development and Performance Outcomes of Basic Education and Health

EXECUTIVE SUMMARY

Reforms in the health and education sectors need to go hand-in-hand with the broader intergovernmental financial reforms.

A recent study¹ by the Financial and Fiscal Commission (the Commission) explored how public spending helps to deliver basic education, health policy objectives and Millennium Development Goals (MDGs) – specifically universal primary education and a reduction in the under-five child mortality rate. The study was undertaken because efficiency, quality and performance of education and health vary widely within and between provinces. Many township and rural schools perform badly, and low educational standards persist in these areas and among poor households. An argument is made that provinces need to exercise increased fiscal responsibility in the context of rising cost pressures resulting from implementing occupation specific dispensation (OSD) and rising demand for education and health services in general. In this regard, improving the quality and efficiency of services in education, health and rural development are central.

Increased spending alone cannot improve efficiencies and quality. Service delivery reforms, proper resource planning and management, and a commitment to tackle inherited problems in education and health sectors are also needed.



1. Makube, T. 2011. Budget Analysis and Exploration of Issues to Increase Performance in Basic Education and Health, Chapter 6 in Financial and Fiscal Commission (2011). 2012/13 Submission for the Division of Revenue, Midrand, South Africa.

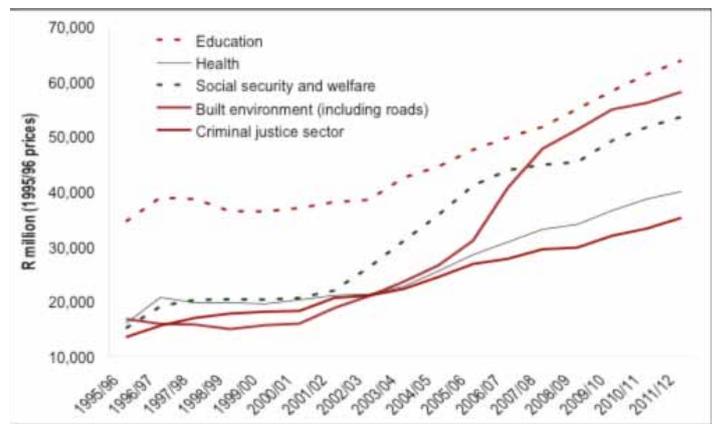
BACKGROUND

South Africa risks not achieving the education and health Millennium Development Goals (MDGs) by 2015, particularly child and maternal mortality. Education and health in South Africa face challenges related not only to funding, but also to the quality of services, the role of teachers, parents and health professionals, the state of facilities and the recipients' socioeconomic status. Despite increased spending, the quality of the country's education and health systems is poor and varies significantly across and within provinces. Many schools in townships and rural areas perform badly compared to those in more affluent and urban areas. Maternal and child mortality rates are still too high, and life expectancy is worsening. The public sector health care system is under severe pressure. The burden of communicable and non-communicable diseases, injury and trauma threaten to overwhelm the health system, with HIV/AIDS and tuberculosis (TB) posing the greatest challenges.

In the Annual Submission for the Division of Revenue for 2010/11,³ the Commission recommended that the provincial equitable share formula be reviewed. The main problem is that the formula is designed to achieve too many objectives. The 2011 Division of Revenue Bill reflects some changes made by government, especially in the health component.

As Figure 1 shows, education is the government's main spending priority. The health sector's share of total government spending has also been increasing since 2004/05, but from a lower base than education, social security and the built environment.

Figure 1: Government spending trends on policy priorities, 1995/96–2011/12



Source: National Treasury (2000⁴ ; 2010⁵)

Despite real increases in education and health spending, the improvements in quality and results are less than expected given the level of investment. The challenge is not adequate funding, but rather the system of transfers, from national to provinces and from the provinces to actual delivery centres (e.g. districts, schools, hospitals and clinics), which is not functioning efficiently. Most provincial budgets are based on historical allocations and simply adjusted for inflation. This practice continues previous policies that deprive former homelands and poor rural areas of necessary education and health services.

FINDINGS

Spending in education and health makes up about 70% of the combined provincial budgets and is funded mainly through the provincial equitable share, which is an unconditional financial transfer.² Other national education and health priorities are funded through conditional grants. Depending on provincial priorities and pressures, the Provincial Executive Councils and Legislatures decide how the money will be distributed. The decision depends on national priorities, the influence of provincial treasuries and the capacity of each provincial department to motivate for funding. In essence, this decentralisation (or the intergovernmental relations system in South Africa) means that national government has little influence over how the money is spent, except for conditional grants.



2. National transfers can either be conditional or unconditional. In the South African case, equitable shares are unconditional transfers to provincial and local governments. Conditional grants are purpose-specific or fiscal transfers earmarked to fund national priorities. All these transfers are allocated through the annual division of revenue.

3. Financial and Fiscal Commission. 2010. Technical Report: Submission for the Division of Revenue 2010/2011, Midrand, Republic of South Africa.

4. National Treasury. 2000. Budget Review. Pretoria: Government Printer.

5. National Treasury. 2010. Budget Review. Pretoria: Government Printer.



Although the provincial equitable share formula was reformed in the 2011 fiscal framework, to take into account the use of and demand for health services, provincial health budgets are not based on the needs of health service users. The budgets do not adequately account for the size of the HIV/AIDS epidemic and South Africa's other growing health challenges. Public hospitals face staff shortages, yet the majority of provinces are overspending on their personnel costs, mainly because of the occupational specific dispensation (OSD). The OSD introduced revised salary structures that are unique to each identified public service occupation. Its aim is to attract and retain skilled staff in the public sector, by improving conditions and pay, and establishing career paths. However it has also resulted in significantly increased staff costs.

RECOMMENDATIONS

The following recommendations emerge from the study:

1. Government should finish implementing OSD and formalise the performance evaluation system, while being aware of the rising public sector wage bill relative to other priorities. A full costing of OSD implementation must be undertaken, and national government must take the responsibility for funding, preferably through a purpose-specific conditional grant.
2. Increases in education spending should be directed towards investments that will have the biggest impact on quality, and this includes learner and teacher support materials. In this regard, government should improve quality and access to education.

The negative effect of migration implies that municipalities are struggling to cope with the spending pressures linked to migration, which is stretching resources and, as a result, the quality of services is decreasing.



3. Coordination, financing and provisioning of scholar transport should be improved. The Commission is aware that agreement has been reached to transfer the scholar transport function from the Department of Basic Education to the Department of Transport. Government must take reasonable measures to include intellectually disabled children in mainstream education through input and output norms and standards.

4. Government should continue to reform health sector finances by taking into account the burden of disease that puts pressure on budgets, by:
 - Regularly reviewing usage costs for chronic disease services in HIV/AIDS, TB, maternal and child health, as the basis of funding for HIV/AIDS, opportunistic and other infectious diseases. This would determine the amount of funding allocated to the health sector.
 - Through the budget process, forcing provincial health budgets to be based on estimated needs of health care service users and holding provincial governments accountable for underfunding of hospitals and clinics.
 - Re-examining how resources are distributed among primary, secondary and tertiary health care services. The aim should be to strengthen primary health care without weakening the role of tertiary hospitals.
5. Certain functions, such as procurement, human resources and financial management, should be devolved to hospital management to boost efficiencies and create better performance.

Enquiries: Tebogo Makube (teboko@ffc.co.za) | Phone: 082 481 8173

Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685
www.ffc.co.za
Tel: +27 11 207 2300
Fax: +27 86 589 1038

