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FINANCIAL AND FISCAL COMMISSION

GROWING REVENUE IS THE PRIORITY

Balancing fiscal sustainability with the socio-economic impact of government initiatives is vital, says the Finance and Fiscal Commission (FFC). In the first in a series of articles by Chapter Nine institutions, the FFC says in order to finance its socio-economic programmes, government needs steady and dependable revenue growth.

The South African government has set a clear course of comprehensive economic and social reforms, with the National Development Plan (NDP) being a key element. This means having an economy that is growing fast enough to provide revenue necessary for these programmes. Ensuring that public spending has a greater impact, through efficient and effective delivery of public services, will also stimulate growth. Nevertheless, trade-offs will have to be made to strike a balance between fiscal sustainability and protecting (if not extending) existing socioeconomic gains.

These challenges notwithstanding, according to a recent FFC submission tabled in Parliament at the end of May, there are opportunities for balancing fiscal sustainability with socio-economic impact. The FFC makes submissions to Parliament which include recommendations on the division of revenue among the three spheres of government on an annual basis. These submissions are made in terms of Section 214(1) and (2) of the Constitution, Section 9 of the Intergovernmental Fiscal Relations Act of 1999 and Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009).

The FFC is of the view that if policymakers are to attain this balance, their priority should always be to improve economic prospects. In order to raise long-term economic growth, important reforms will be required across a number of institutions, as many of the problems are interlinked.

National, provincial and local governments all deliver public services, at times with different objectives and uncoordinated activities. Relations among the three spheres of government will impact on economic growth and the realisation of socio-economic rights. Most of the initiatives covered relating to education, health, electricity, water and housing have an intergovernmental dimension.

Intergovernmental relations, in turn, should aim to strengthen the long-term financial development and sustainability of local, provincial and national governments. Government should continue with efforts to address the fiscal position, which is entirely within its control. Sustained deficits, which can undermine the country’s economic and social future, are not inevitable. Reforms to the delivery of public services can contribute not only to increasing economic growth but also to achieving the balance between fiscal sustainability and socio-economic impacts. These reforms are desirable as they improve the quality and access to public services, and lower costs.

Affordability and excellence are not incompatible and can be accomplished through greater efficiency that serves both the fiscal imperative and South Africans’ desire for better run programmes. However, in order to protect and extend the existing socio-economic gains, the country will have to do things differently.

At the macroeconomic level, public finances may become increasingly vulnerable with prolonged sluggish domestic economic growth rates. High levels of public debt can compromise the ability of government to meet other expenditure. Were the government to implement more aggressive programmes to lower debt levels, this could depress demand and deter investment, which could threaten prospects of meeting NDP goals. This is why across-the-board cuts or expenditure ceilings should be avoided as a means of debt control. Such blunt tools make no distinction: they treat valuable, efficiently run programmes and outdated, poorly managed programmes in the same way.

The socio-economic pressures may intensify as South Africa seeks to boost economic growth, and this could jeopardise the sustainability of that growth and the wellbeing of the population. Challenging the common view that people become reliant on grants, the FFC is of the view that expanding the reach of grants will bring social and economic benefits. They help to reduce poverty and contribute to a stable society where people live with dignity, differences are respected and everyone's basic needs are met. This is why programmes should be integrated across different departments and different spheres of government, putting the citizens' perspective first. Vulnerable people and their families do not care which sphere of government or which department is responsible for providing support – they just want help.

The redetermination of municipal boundaries and consequent mergers is a key issue for the 2015 division of revenue, going into the 2016 local government elections and implementation of the new boundaries. The Commission has reviewed past experience with demarcation processes and is making proposals around addressing the potentially negative impacts of mergers on the financial and fiscal performance of merged municipalities. There is a need for a fiscally prudent way of carrying out demarcations of municipal boundaries in order to minimise the negative impacts on the financial and fiscal performance of municipalities.

The government through its different spheres needs to create better conditions for inclusive growth. Ensuring greater impact and good use of public money is one way to reconcile the fiscal space with the need to stimulate economic growth, encourage participation in the economy and improve equity. Creating a strong economy requires three basic investments: in people (basic education, health and food security), infrastructure (municipal infrastructure, transport, electricity and housing), and innovation (new ideas and technologies). South Africa already spends significant amounts of money on health, education and other human capital investment, but while access has improved dramatically, the quality must still improve.

But sadly there are some factors at work that eat away at the government's best efforts. Despite substantial resources directed successfully at infrastructure, poor infrastructure planning and implementation, increasing costs, supply-chain management fraud and inefficiency, and inadequate maintenance have meant that infrastructure outcomes have often fallen short of what the country needs. Not only do we need to grow the financial cake and carefully plan how to slice it, the integrity of all its ingredients needs to be of the highest order.

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