Weekly Mail & Guardian

Finance report's lack of commitment

A SECOND LOOK

Joachim Wehner

In its latest submission, the Financial and Fiscal Commission (FFC) presents some valuable recommendations on local government finance. At the same time, however, the commission fails to present concrete figures on the recommended slicing of the fiscal cake. The lack of specificity and seemingly dwindling commitment by the commissioners are likely to undermine the practical effect of the recommendations.

The Constitution obliges the FFC to make recommendations to Parliament and provincial legislatures on the equitable sharing of national revenue between the national, provincial and local spheres of government. In its 2001 submission the FFC reiterates its view, outlined in last year's "costed norms" recommendations, that constitutionally mandated basic services and other constitutional obligations should form the basis for revenue sharing.

Regrettably, its comments on the national equitable share remain underdeveloped. The section on provincial government finance highlights selected issues, in particular the pending introduction of provincial taxation powers.

The commission reaffirms its support for the implementation of the provincial surcharge on personal income tax. It suggests that provinces should be allowed to determine their own tax rates, within bands determined by the national treasury.

For the allocation of infrastructure grants, the FFC proposes a capital grants model for health, welfare and education, which will be developed to cover other provincial sectors. At present provinces are largely expected to address capital backlogs through a token backlogs component in the current formula, which was complemented last year with the conditional provincial infrastructure grant.

Both recommendations make important contributions in controversial areas. While the Provincial Tax Regulation Bill will be discussed in Parliament later this year, protracted concern over the adequacy of capital expenditures in the provinces would seem to require a structured solution over the long term, as proposed by the FFC.

The bulk of this year's submission deals with local government finance. Following the redemarcation process, this sphere of government is now set to assume increasing importance. Until a more complex formula becomes operational in the long term, the commission proposes a financing mechanism that considers the provision of basic municipal services, tax capacity and an institutional grant to finance a basic administration.

Among others, the FFC attempts to identify the bundle of basic municipal services: water, sanitation, municipal health, firefighting, storm-water drainage, refuse removal, municipal roads, and electricity. A proper costing of service obligations in these areas would be necessary to implement the commission's approach.

Recent national government policy pronouncements on the free provision of basic quantities of water and electricity, also known as lifeline tariffs, will have a significant impact on local government finance. The work of the commission in this regard is crucial, given that poor, rural municipalities will find it impossible to finance these basic free services through consumer cross-subsidies.

As the FFC points out, even where cross-subsidisation is possible, it is not desirable to exploit this avenue to the fullest, as redistribution objectives are best funded centrally. This is to avoid competition between municipalities that results in the rich moving away from municipalities that pursue redistribution policies.

The commission's answer to this dilemma is clear: "If the directive to provide a free basic level of service comes from the national sphere, then it is the responsibility of this sphere to provide the requisite funding."

The implication is that lifeline tariffs should be funded either through the (unconditional) equitable share for local government, or through a national conditional grant for this purpose. Otherwise, a laudable policy initiative might lead to unequal outcomes due to "unfunded mandates", with only the relatively wealthy, urban municipalities able to provide free quantities of water

> It seems as if the FFC has become overly cautious after being sidelined by the treasury over the past years