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Fiscal watchdog suggests what government should prioritise

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WHEN the Financial and Fiscal commission was set up, in terms of the constitution, its mandate was to ensure government dished out fair proportions of revenue it collected to the provinces and municipalities.

Essentially, the commission was put there as a safeguard to prevent government playing politics with budget allocations — an African National Congress government cannot, for example, squeeze a province financially just because it is controlled by a rival party.

In the event, the safeguard has proved unnecessary, with government sticking to reasonably objective formulae in allocating money to the different levels of government as well as among provinces and municipalities. And the commission has been pretty low profile in recent years.

However, that does not mean it lacks a role. Its major focus has come to be on monitoring government's provision of basic services — particularly those mandated by the constitution, such as health, education and social security.

Provinces are vital in the delivery of such services, while municipalities are central to delivering services such as electricity and water. So the commission's mandate to watch intergovernmental fiscal relations ties in neatly with its focus on social delivery.

Ideally, the commission acts as a constructive internal critic of fiscal policy, judging government's efforts under criteria set out in the constitution. It has some power — the finance minister must take notice of its proposals and account to Parliament if he rejects them. It is not terribly expensive, with a budget of about R10m annually and it could get less costly.

Where originally the constitution provided for an unwieldy 22-member board, including representatives from all nine provinces, there is now an amendment before Parliament to cut the board to nine members, with the provinces nominating three of these.

The commission's annual review, tabled in Parliament this week, provides a broad review of the intergovernmental fiscal system, in the 10th year of the new system, as well as its usual assessment of budget detail.

One longer term, macro issue the commission notes is that SA has what the commission calls a "vertical fiscal imbalance" — one of the highest in the world. Though slightly more than half of general government spending was done by "subnational governments" (provinces and local government) in 2001-02, these tiers of government raised just less than 10% of general government revenue.

The decentralised spending without decentralised taxing can in theory be a problem, particularly in terms of accountability. Provincial and municipal leaders are elected by their own constituencies, but most financing is from central government.

That may make them less accountable to local electorates, more concerned with pleasing the government paying their salaries and other costs.

This is an issue, particularly at provincial level, as the provinces are highly dependent on central government transfers while municipalities raise the bulk of their own revenue from rates and user charges on water and electricity.

Provinces have tended to be rather reluctant to impose new taxes and the electorate would surely be displeased.

The commission is not, at this stage, suggesting major reforms. However, it has suggested that government create tax room to make space for provinces to raise their own taxes.

Another macro issue is that of the formulae by which government allocates funds to the other two tiers. These are based on a set of economic and demographic variables which keeps the process relatively simple and certain.

However, the commission has been arguing for a couple of years for a "costed norms approach" that would tailor funding far more closely to actual needs in each province or municipal area, in terms of the number of people entitled to claim social security, and how many need free schooling, healthcare and related services. That approach would require much better demographic data on poverty levels, schoolgoing populations, and the like. One of the commission's emphases in its latest report is on the need for more thorough, better and timely statistics to be collected on all these population indicators.

It also takes up the tough issue of underdelivery and lack of capacity at local government level, proposing that government needs to categorise municipalities into different groups requiring different strategies. Some may need more help in raising revenue and delivering services.

Commission deputy chairman Jaya Josie says one vital issue the commission wanted to stress in its report was ensuring the provision of basic services is given priority by government, and that provinces are in a position to meet those demands. Allied to that is the need to provide infrastructure to support those efforts.

Although the treasury is doing an excellent job in managing and allocating revenue, there is a need for clearer strategies in the long term. And there is plenty more to be done.

■ *Joffe is financial services editor.*