PUBLIC FINANCES

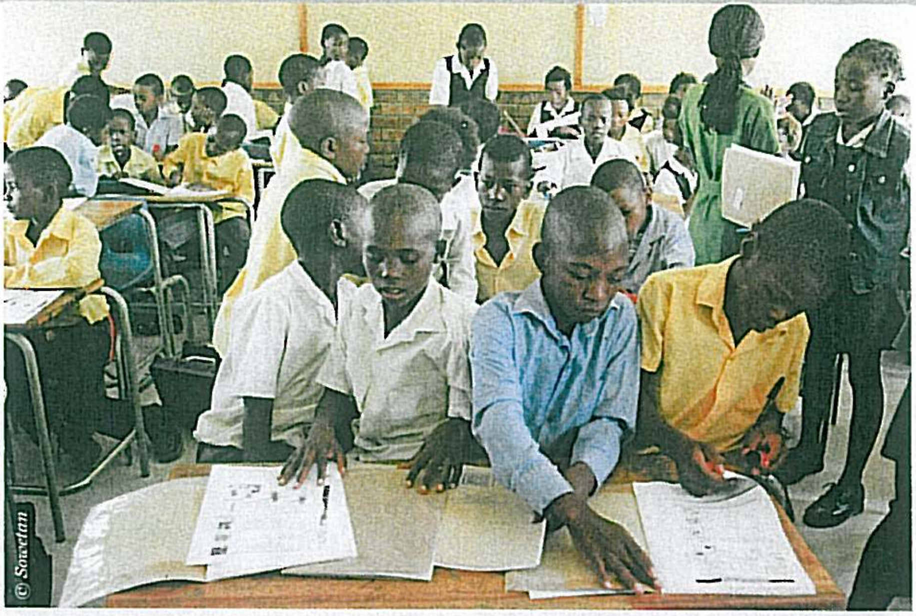
Changes for the better?

SA's budgeting system could undergo a radical overhaul, including a constitutional amendment, to allow provinces more freedom to spend their education and health budgets. The financial & fiscal commission (FFC) recently tabled its "submission for division of revenue" recommendations for the 2010/2011 financial year in parliament.

The FFC recommends a change in the provincial equitable share formula, which is used to share revenue between provinces according to their size and population. The FFC would like to see provinces use more of their revenue-raising capacity and be allowed to borrow from debt markets.

It would also like to see provinces have more say in how they spend their health and education budgets. Ramos Mabugu, research director at the FFC, says this would involve allocation by sector rather than by sphere of government, as the constitution dictates.

FFC chair Bethuel Sethai says the proposals are not "federalist", but merely call for a full implementation of powers for various tiers of government, as envisaged by the constitution.



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Education FFC would like provinces to have more say in spending

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The FFC is a permanent commission that analyses intergovernmental finances. It is staffed by full-time and part-time commissioners who are experts in various aspects of public finance. It also has a modest research capacity in its secretariat. The full-time commissioners are chairman Sethai and his deputy, Bongani Khumalo. Part-time commissioners include Tania Ajam of the African Fiscal Research Centre at the University of Cape Town, and Martin Kuscus, chairman of the Government Employees Pension Fund.

The FFC notes that its focus has had to shift from the distribution of nationally collected revenue to development impact or value for money. Treasury calls this "bang for bucks".

The FFC also warns against stalled policy initiatives and argues that when implementation of a project is delayed, the cost may end up outweighing the benefits. It cites regional electricity distributors (Reds) as an example of this.

First conceived in the mid 1990s, Reds are supposed to take over electricity distribution from Eskom and 187 municipalities.

But Reds have been mired in controversy, with municipalities unwilling to give up a key source of revenue. The process is now set to be kickstarted with a controversial constitutional amendment to compel municipalities to participate. The delay has resulted in a R30bn investment backlog in infrastructure.

The FFC makes detailed recommendations across a range of areas. For one, it notes that demand for rental housing by people earning up to R2 500/month has been increasing, while the private sector has not kept up. It recommends a review of the eligibility criteria for social housing and an increase in urban development zones, which give tax incentives to developers.

Like many statutory bodies, the FFC can only make recommendations to treasury. Kuben Naidoo, head of the budget office at treasury, describes the FFC's work as "invaluable" and credits the commission with the development of both the provincial and local governments' share formulas.

Thebe Mabanga

WHERE THE MONEY GOES

The financial & fiscal commission recommends that the allocations for education and health be taken out of the provincial equitable share and become separate block grants. This will ensure the money is spent in the intended area, such as primary education, yet allow the province to decide how to spend it.

CURRENT DIVISION OF NATIONALLY RAISED REVENUE

NATIONAL DEPARTMENT	R343bn
PROVINCES	**R284bn**
Equitable share	R231bn
Conditional grants	R53bn
LOCAL GOVERNMENT	**R49bn**
Equitable share	R23bn
Conditional grants	R19bn
Fuel levy for metros	R6bn
TOTAL	**R677bn**
PERCENTAGE SHARES	
National departments	50%
Provinces	42%
Local government	8%

SOURCE: BUDGET REVIEW 2009, NATIONAL TREASURY