Financial and Fiscal Commission

Annual Submission for the Division of Revenue

2006/07

April 2005

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1. Where: EC= Eastern Cape, FS= Free State, GP= Gauteng, KZN= KwaZulu-Natal, LP=- Limpopo, MP= Mpumalanga, NC= Northern Cape, NW=North West, WC= Western Cape
2. Source: Division of Revenue Act (various years)
3. Source: Provincial Budget Statements, 2004/2005
4. Source: "Trends in Intergovernmental Finance 2000/01 – 2006/07", National Treasury.
5. National Treasury, *Trends in Intergovernmental Finances 2004*; C. van der Westhuizen (2004). Comparative Provincial Housing Brief. Idasa, Budget Brief No. 145
6. Source: C van der Westhuizen. 2004. *Comparative Provincial Housing Brief.* Idasa, Budget Brief No. 145; and National Treasury: Provincial Budget Statements.
7. Source: City of Cape Town Budget Statements.

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Abbreviations

DoRA	Division of Revenue Act
DPLG	Department of Provincial and Local Government
EHS	Environmental Health Services
EIA	Environmental Impact Assessment
FFC	Financial and Fiscal Commission
HPTDG	Health Professions Training and Development Grant
HSRD	Human Settlement Redevelopment Grant
IDP	Integrated Development Plan
LES	Local Government Equitable Share
LSM	Learner Support Materials
NTSG	National Tertiary Services Grant
NITER	National Increment for Training and Research
PES	Provincial Equitable Share

Foreword

During the 2004/05 fiscal year, government focused its attention on the review of the intergovernmental fiscal relations system. In particular, government discussed and debated the review of the formulae for the Provincial Equitable Share (PES) and the Local Government Equitable Share (LES).

A major consideration, in reviewing the formulae of the PES, was the shifting of the social security grants away from the provinces to the national agency established by the Department of Social Development. Social security grants had hitherto represented the major re-distributive component in the PES. With the removal of the grants, it was necessary to continue to maintain the re-distributive character of the PES as a whole. With respect to the LES, government explored options for a simpler, manageable and adaptive approach to the allocation of the equitable share to local government. The review culminated in changes to both formulae as indicated in the recent enactment of the Division of Revenue Act, April 2005.

The Financial and Fiscal Commission contributed to this review in its Annual Submission in June 2004. The analysis in this submission articulated various recommendations for refining and enhancing the effectiveness of the PES and the LES. These recommendations were well received by government as evident in Annexure E of the Division of Revenue Act, April 2005.

This submission not only extends the review of the intergovernmental fiscal relations system but also widens the FFC's analysis of fiscal matters that were not dealt with in its previous annual submissions to Parliament.

The submission extends the review of the intergovernmental fiscal relations system by focusing on two key areas of significance, viz., the health conditional grants and the financing of social welfare services through the PES. With respect to the health conditional grants, certain structural problems with the National Tertiary Services Grant (NTSG) and the Health Professions Training and Development Grant (HPT&DG) are identified. With the removal of the social security grants from the PES and their location with the national agency, it has become imperative to re-examine the financing of the remaining social welfare services through the PES. A policy and financing framework is necessary to meet the challenges related to the provision of social welfare services in order to maintain the strong linkages between these services and the social security grants.

Three new interrelated aspects of the intergovernmental fiscal relations system are introduced in this document, viz., the relationship among powers and functions; institutional design and arrangements; and their implications for funding frameworks. In particular, this Submission analyses housing, health and transport. The analysis highlights the underlying need for legislative, financing and planning synergies among the three spheres of government.

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In compiling the contents of the submission, the FFC drew on the knowledge and insights of a variety of stakeholders and technical advisors. The commission would like to thank the members of all departments, intergovernmental forums, participants in the FFC seminars, and relevant Ministries who contributed to this document with their information, comments and analysis. This submission is also the product of considerable collaboration and research with the following persons, Alex van der Heever, Professor Rose September, and members of the Education Foundation Trust. The dedication, involvement and participation of the commissioners in various project review sessions and meetings of the commission were instrumental in completing and finalising this document. Their work and expertise in the various areas of intergovernmental fiscal relations has been invaluable.

The Commission would also like to express its gratitude to the Secretariat of the FFC, namely, Myron Peter (Executive Manager: Commission Co-ordination), Hildegarde Fast (Manager: Parliamentary Liaison and Local Government), Bongani Khumalo (Manager: Fiscal Policy Analysis), Conrad van Gass (Manager: Budget Analysis), Goodwill Ditlhage (Researcher: Fiscal Policy – Social Sector), Robert Mabunda (Researcher: Data and Information), Rathipe Nthite (Research Co-ordinator: Infrastructure), Philemon Mathane (Fiscal Policy: Provincial Government), Geoffrey Mashele (Researcher: Budget Analysis), Denver Kallis (Researcher: Local Government), Hammed Amusa (Researcher: Fiscal Policy), Nomonde Madubula (Research Assistant) and Vincent Makinta (Database and Information Management). In addition, the logistical support from Annaleeze Prosee and Lyn Desai was equally important in making sure that the implementations of plans and processes to produce the document were on track.

As Commissioners and the Executive of the Financial and Fiscal Commission we, the undersigned, hereby submit this Annual Submission to Parliament in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa.

Commissioner	Renosi Mokate
Commissioner	Antony Melck
Commissioner	Jaya Josie
Commissioner	Kamalasen Chetty
Commissioner	Tania Ajam
Commissioner	Gugu Moloi
Commissioner	Blake K. Mosley-Lefatola
Commissioner	Martin Kuscus
Commissioner	Risenga B. Maluleke

For and behalf of the Commission

Chairperson	Dr. Renosi Mokate
Deputy Chairperson	Jaya Josie

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Executive Summary

Section 220 of the Constitution establishes the Financial and Fiscal Commission (FFC) as an independent and impartial body. The Constitution mandates the FFC to make recommendations on: the vertical division of nationally raised revenue among the three spheres of government; the horizontal division of revenue among provinces and among municipalities; legislation pertaining to the issuing of loan guarantees by the three spheres of government; provincial tax legislation; municipal fiscal powers and functions; and provincial and municipal borrowing powers (Sections 214, 218, and 228-230).

Following sections 214 and 222 of the Constitution, Section 9 of the Intergovernmental Fiscal Relations Act of 1997 provides for the FFC to make annual recommendations to Parliament and the provincial Legislatures on the vertical and horizontal divisions of revenue; Section 10 requires that government consult the commission on the annual Division of Revenue Bill and outline its response to the commission's recommendations. In performing its functions, the commission considers the factors listed in Section 214 (2) (a-j) of the Constitution and the Bill of Rights in Chapter 2 of the Constitution.

Part A: Recommendations for the Division of Revenue

This section of the submission presents recommendations for the 2006/07 Division of Revenue Bill. The recommendations are based on studies conducted by the commission over the past 12 to 18 months. In developing the recommendations, the commission has taken cognisance of the responses to its proposals over the last four years. In particular, it has followed up on government's responses to the FFC recommendations as presented annually in Annexure E of the Division of Revenue Bill. The recommendations cover issues concerning the health conditional grant system, the delivery of social welfare services, and the powers and functions in the intergovernmental fiscal relations system for providing basic services.

1. Review of health conditional grants

The aim of this submission is to review the two largest health conditional grants: the National Tertiary Services Grant (NTSG) and the Health Professions Training and Development Grant (HPTDG). The submission asks key questions about the grants: What is the purpose of each grant? Are the amounts that beneficiaries receive adequate? Are the stated objectives of the grant in line with broader policy?

Within the context of the review of provincial conditional grants, some stakeholders argue that the conditional grants should be phased out and incorporated into the provincial equitable share (PES).

Others believe that these grants should be retained, and refined or modified where weaknesses are identified.

This submission presents a case for retaining the grants and not incorporating them into the PES. The submission further proposes that the grants, as they are currently constituted, be revised in certain key areas.

The submission first identifies some major gaps in the way the grants have been designed, and concludes that aspects of design and implementation need to be reviewed. The submission then tables proposals on how these grants could be redesigned so that their stated intentions and policy goals are achieved more effectively.

For the National Tertiary Service Grant, the FFC recommends that:

1. Government continue using the NTSG conditional grant mechanism to finance tertiary services. The reasons for keeping this mechanism and not shifting to the provincial equitable share (PES) are:
   - As most tertiary services and other specialised health services are currently provided in some and not all provinces, externalities in relation to tertiary and other highly specialised health services are likely to persist, at least in the short to medium term. Therefore, it is important for the national sphere of government to support activities that are of importance beyond provincial boundaries through the conditional grant mechanism.
2. Government clarify why the NTSG is only meant to compensate provinces for cross-boundary flows/referrals relating to level 3 (tertiary) health care services and not level 2 (secondary) health care services.
3. Government develop a national policy framework and clearly define the required minimum level of service for all hospital services, distinguishing clearly between the requirements for secondary and tertiary healthcare services. The framework should also indicate expected service levels, human resource requirements, financial and capital resource requirements, and the funding mechanism for the provision of tertiary and secondary health care services.

For the Health Professionals Training and Development Grant

In making its recommendations on the HPTDG, the FFC has taken the following considerations into account:

- The linkage of training to academic institutions: The distribution of these facilities is outside the jurisdiction of the health function and is affected by other factors (such as university-based health faculties).
- The uneven inter-provincial distribution of teaching and training facilities in South Africa: This unevenness is both quantitative and qualitative. The training of health professionals is linked

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to academic institutions, which are concentrated in particular provinces. It is unlikely that these facilities will relocate to poorer provinces.

- Decisions made at the provincial level could be incompatible with the national interest: A key question is whether the policy decision about the training and development of health professionals should be left to the discretion of a province that serves populations well outside its boundaries. For example, if Province X unilaterally decided to halve the intake of medical students, or nursing students, the decision would have national implications.

In relation to the Health Professions Training and Development Grant, the FFC recommends that:

1. The HPTDG be kept as a conditional grant
2. The HPTDG framework be tightened to make sure that the grant is only used to fund accredited qualifications and training.

2. Financing social welfare services through the provincial equitable share

The purpose of this submission is to contribute to the development of an objective financing mechanism for social welfare services in provinces. This submission starts with a discussion on the policy environment of social welfare service delivery. It notes that although policy is in place, there is not enough clarity about what constitutes social welfare services. The research for this submission identified several challenges. These include: the lack of norms and standards for social welfare services, the lack of co-ordination among the different role players in the sector; and the high concentration of resources in urban areas. The research also assessed how social welfare services would be negatively and positively affected by the social security function shifting to national government. These include: their stronger budgetary position; less political commitment; and negative outcomes for children and family welfare, together with the loss of the empowerment thrust of these services. The section on social welfare expenditure shows that in poorer provinces most funds are allocated to administration, and the latest expenditure analysis shows that in most provinces, child and family welfare receive the largest proportion of provincial budgetary allocation. Analysis of provincial expenditure further shows that expenditure on social welfare services has declined over the past three financial years, while social security funding has increased.

Anticipating the possible disjuncture between the national payment of social security grants and the provincial delivery of social welfare services, the FFC recommends that:

1. Specific consideration be given to allocating funds to social welfare services in the provincial equitable share (PES) for the following reason:
   - Although in the past, the FFC has recommended a separate consideration for allocations to social welfare services in the provincial equitable share, it reiterates this recommendation. This is particularly in light of the potentially negative outcomes that the shifting of social security may have for important beneficiaries of these services.

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2. Government works faster to set the norms and standards for the delivery of a defined minimum basket of social welfare services by provinces for the following reasons:
    - The sector must engage in a comprehensive process to define exactly what it does and how it does it, and what it will cost.
    - Because inputs are diverse and it is difficult to quantify social welfare service interventions, there is a need to develop a rigorous, transparent and robust way of calculating the reasonable operating costs of efficient and effective social welfare services.
    - Minimum norms and standards should preferably be informed by country level priorities and norms, while local needs, goals and anticipated outcomes should be reflected at the provincial level.
    - To ensure uniformity and compliance, national legislation and policies should inform the basis for the norms, standards and mechanisms that will determine the cost of providing social welfare services.

3. Framework for the assignment of powers and functions in South Africa's intergovernmental system

This submission outlines a number of unresolved issues associated with the exercise of powers and functions among the three spheres of government. The analysis is based upon FFC research into the delivery of health, housing and transport services.

There is no clear delineation of responsibility for some functions that are shared by the spheres of government. Where functions are the responsibility of one sphere of government and carried out by another sphere, there is uncertainty about whether this arrangement is the result of an assignment, delegation, or agency agreement. This makes it difficult for municipalities to plan and budget for the function in the medium and long term.

In municipalities with significant fiscal capacity, expenditure is increasing for functions that cannot be strictly categorised as local government functions in terms of Schedule 4B and 5B of the Constitution. For example, municipalities often 'top up' the housing subsidy, as the subsidy amount is not sufficient to provide both the infrastructure and top structures because of specific geotechnical and socio-economic conditions.

Increased expenditure on such items has a number of serious consequences for the intergovernmental fiscal system:

- Providing such services could compromise the delivery of local government's constitutionally mandated basic services.
- The increased expenditure does not appear to increase the vertical division of revenue, even where additional expenditure responsibilities are assigned through legislation.

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- There is an increasing asymmetry between the range and quality of services delivered by metros and larger municipalities on the one hand, and smaller, fiscally weak municipalities on the other. In the absence of a uniform framework, it is difficult to compare the fiscal gap among municipalities in South Africa and to design intergovernmental transfers accordingly.

Another issue is the lack of comprehensive definitions and norms and standards for many functions. This makes it difficult for national or provincial government to assign or delegate a function, as the specific responsibilities and related expenditure needs are unknown.

The FFC therefore recommends that:

1. The DPLG Framework on the Assignment of Powers and Functions to Local Government and the instruments that give effect to the framework should be finalised as a matter of urgency.
2. An intergovernmental assignment framework that applies to all three spheres of government should be developed. This framework should seek to:
   - Identify the location of powers and functions according to generally accepted intergovernmental fiscal principles as outlined in sections 41(1), 126, and 156 of the Constitution.
   - Ensure that agreement on funding arrangements is reached before a function is assigned.
   - Develop criteria for assessing whether a sphere of government has sufficient capacity to fulfil a function.
   - Rationalise the current institutional arrangements for assigning or delegating functions.
3. Monitoring capacity should be established in the national sphere of government to ensure that assignment and delegation processes are consistent with the intergovernmental framework for the assignment of functions.
4. For any function that may be assigned or delegated, government should:
   - Develop a clear definition of that function.
   - Develop norms and standards for that function and clarify service level responsibilities and the concomitant funding implications.

4. Assessment of the institutional and funding framework for housing delivery in South Africa

Government is obligated to take legislative and other measures within its available resources to provide more housing. However, a range of intergovernmental financing and delivery issues are obstructing this process.

This submission aims to give an overview of the financing and delivery challenges in the housing sector. It begins by describing the institutional and funding framework and then gives some insight into the delivery and financing trends. The information in the submission is supported by interviews with provincial and municipal officials in three provinces on financing and delivery challenges as well as the FFC meeting record of a conditional grants seminar organised by the national Department of Housing.

The research identifies the following key issues:

- There are numerous blockages in the housing delivery process that are largely related to delays in finance and planning approvals.
- The policy shift to improving the building quality of houses is not fully funded.
- Where additional costs arise in the housing process, such as with new housing standards, these are generally borne by local government.
- Long-term financial liabilities arise for provinces or municipalities that carry rental housing stock, as rental arrears and operational expenditure are not covered by rental income.
- The growing number of low income households that cannot maintain the monthly service charges, increases the debt burden on municipalities. Alternatively, the additional recurrent costs associated with increased responsibility to provide free municipal services, puts more financial stress on low capacity municipalities.

The FFC therefore recommends that:

1. In cases where municipalities have the capacity to become accredited to administer housing programmes, government should ensure that there is available funding for administering housing subsidies. The accreditation processes should reduce the delays in rolling out housing delivery.
2. Government should consider the funding implications of any further policy changes, for example, when higher building standards are specified nationally.
3. Funding gaps should be avoided, particularly in municipalities with weaker fiscal capacity.
4. A sustainable financial framework for the ongoing demands of rental housing schemes should be developed.
5. Consideration should be given to linking new housing subsidies with the municipal infrastructure grant (MIG) and the equitable share formula to ensure that the municipalities may deliver basic services to poor households. In doing so, the following should be taken into account:
   - The need to provide municipalities with appropriate incentives to extend municipal infrastructure and spend funds efficiently and effectively.
   - The need to achieve equity in addressing the expenditure needs of local government
   - The need to take account of the differing capacities of municipalities.
   - The need to ensure that local government equitable share (LES) allocations keep pace with the installation of new housing infrastructure.
6. Government should address housing delivery bottlenecks to reduce under spending in provinces, resulting from:
   - delays in local and provincial government planning approvals (such as EIA, transport plans and social compact agreements)

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- the lack of project management capacity in some provinces and municipalities
- delays in proclaiming land, where this falls within traditional communal areas.

5. Transport funding issues in South Africa

The submission outlines the current policy, legislative, and funding framework for transport provision in South Africa. It suggests that it is imperative for government to examine transport issues for a number of reasons:

- Access to safe transport infrastructure is arguably a constitutional right
- Transport infrastructure plays a crucial role in economic growth and poverty alleviation and
- Proposals related to a national road fund have significant implications for the provincial equitable share and for municipal conditional grants.

Initial FFC research on these highlighted the following factors:

- There has been considerable under-investment in South Africa's transport infrastructure over the past two decades, although this is being addressed through the emphasis on infrastructure investment in the MTEF 2005
- There is considerable debate internationally and within South Africa about the desirability of "pricing" road usage through fuel levies and user charges
- The reclassification of some provincial roads as national roads has implications for the provincial equitable sharing mechanism
- There is insufficient funding of municipal road maintenance in South Africa, in spite of the fact that up to 52 per cent of the road network legally falls under the jurisdiction of municipalities.

The FFC therefore recommends that:

1. Government should ensure that the following is implemented as a matter of urgency:
    - Developing criteria and processes for classifying all roads and assigning each class of roads to the respective sphere of government or category of local government.
    - Assessing the length and condition of all roads, and the estimated expenditure need for rehabilitation and maintenance arising from this.
2. Government should develop a coherent funding framework for roads in South Africa. The framework should consider the role of the provincial equitable share and existing provincial and municipal infrastructure grants.
3. Government should consider the devolution of bus and taxi subsidies to municipalities where the capacity exists to manage these services.
4. Government should implement mechanisms to improve the efficiency of inter-modal transport planning.
5. Government should address certain issues that need to be resolved for setting up transport authorities, including funding arrangements and how the authorities' governing bodies are constituted.

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Recommendations on the Division of Revenue

[Part A]

1 Review of health conditional grants

1.1. Introduction

In its 2003/04 submission, the Financial and Fiscal Commission (FFC) recommended a comprehensive review of the current conditional grants to assess what the obstacles were to their being implemented effectively. In addition, the reports from the Parliamentary Standing Committee of Finance (SCOPA), the Select Committee on Finance (ScoF) and the Auditor General, have already highlighted some of the problems with the design, management, administration, and implementation of these grants. Examples are the tendency by national departments to micro-manage these grants, and excessively strict conditions in the grant frameworks and operational requirements. In 2003, the Budget Council approved the FFC's recommendation that the provincial conditional grants be reviewed within the context of a broader review of the provincial fiscal framework.

The following analysis presents the results of the FFC's review of the two major health conditional grants: the National Tertiary Services Grant (NTSG) and the Health Professions Training and Development Grant (HPTDG).

Health conditional grants constitute 11,6 percent of the total provincial conditional grants. The NTSG and HPTDG have not been reviewed in the recent past despite some evidence of poor performance and gaps in their design in relation to their intended policy objectives. The NTSG accounts for 54,3 percent of total health conditional grants, while the HPTDG accounts for 17,5 percent. Together, the grants account for approximately 72 percent of all health conditional grants.

1.2 Review of the National Tertiary Services Grant

The purpose of the grant

There has been a material change in the definition of what the grant funds. Initially, the grant was meant to fund what was defined as 'central hospital services.' This referred to first 10 and then 11 central hospitals. But from 2002/03 onwards, the grant was de-linked from these specific central hospitals and directed to what is broadly referred to as 'tertiary services' in all provinces. Definitions of different categories and levels of health care services are given in Annexure A1.1.

The original objectives of the grant

Highly specialised services are unevenly distributed throughout the country, this means that only certain provinces can provide tertiary services. The NTSG was supposed to address this problem by helping provinces deal with the costs associated with providing referral services, including highly specialised services. The 1997 medium-term expenditure framework (MTEF) reiterated that the grant was meant to support activities that spill over provincial boundaries.

Current specification

Currently, the purpose of the grant as stated in the Division of Revenue Act (DoRA) is: *'to fund tertiary (highly specialised) services to ensure equitable access to these services for all citizens'*. Although the purpose of the grant has evolved over time, there has never been a comprehensive review to assess whether its design and implementation requirements are consistent with the stated policy objectives. This has led to major gaps within the grant.

Allocation trends

Initially, when it was functioning as the Central Hospitals Grant, the grant was linked only to the few provinces that had 'central hospitals'. Because of the specialised nature of tertiary services and other hospital services, these central hospitals tend to be concentrated in large cities like Johannesburg, Pretoria, Cape Town, Durban and Bloemfontein. The 2002/03 Budget reflected a new approach to the financing of tertiary health services, and the grant's name was changed to NTSG. The most notable change was that every province started to receive its allocations from the NTSG. By rolling out the allocations to other provinces, government was aiming to start the process of building up a much stronger tertiary services sector in several provinces by 2014, especially in the poorer provinces like Eastern Cape, Limpopo and North West. Although government was acknowledging that in some provinces tertiary services are provided in regional hospitals, particularly larger ones, about 63,6 percent of this grant is allocated to the Western Cape and Gauteng. Table 1.1 below shows the detailed allocations by province.

In 2003/04, as part of its Modernisation of Tertiary Services Project, the Department of Health completed a study on the review of outputs and costs for tertiary services. The outcome of the study was intended to form the basis of the long-term strategy for tertiary and regional hospitals services in South Africa. The department has not published the results of the study.

Table 1.1 Allocations for the NTSG for 1997 to 2008 per province.[8]

Province	Allocations (R billion)			Forward Estimates (R billion)	
	2003/04	2004/05	2005/06	2006/07	2007/08
Eastern Cape	195,504	272,036	353,022	374,203	392,913
Free State	336,501	384,165	432,116	458,043	480,945
Gauteng	1,679,760	1,727,736	1,760,465	1,866,094	1,959,399
KwaZulu-Natal	551,831	619,462	691,451	732,167	768,078
Limpopo	46,297	46,878	71,182	71,579	71,648
Mpumalanga	40,265	41,427	42,224	44,757	46,995
Northern Cape	32,892	35,109	76,353	92,286	107,975
North West	35,000	42,105	67,889	69,380	70,509
Western Cape	1,076,724	1,104,087	1,214,684	1,272,640	1,322,744
Total	**3,994,774**	**4,273,005**	**4,709,386**	**4,981,149**	**5,221,206**

Source: Division of Revenue Act (various years)

Assessment of the spillover effect for both level 2 and 3 services

In the context of the NTSG, the spillover effect relates to the cost of the expected cross-boundary flow (referrals) from other provinces. The existing NTSG aims to fully fund only level 3 services. By definition, it is therefore not meant to finance cross-boundary flows relating to level 2 services. But the reasons for the grant excluding level 2 services are not clear. The definitions of various levels of health care are provided in Annexure A1.1.

Gaps identified within the NTSG

It is important to note that there is still unevenness in the inter-provincial distribution of tertiary facilities and services in South Africa. With the current concentration of these facilities in Gauteng

8. Where: EC= Eastern Cape, FS= Free State, GP= Gauteng, KZN= KwaZulu-Natal, LP= Limpopo, MP= Mpumalanga, NC= Northern Cape, NW=North West, WC= Western Cape

and the Western Cape, a certain degree of spillover is likely to continue. This geographical inequity is largely systemic and cannot simply be resolved by diverting resources.

The grant is not comprehensively specified to cover certain key health services such as level 2, or secondary, services. It is explicitly aimed at providing a compensating financial mechanism for level 3, or tertiary, services and does not provide a similar mechanism for compensating spillovers for level 2 services. If the grant is not supposed to do this, government should indicate what other financing mechanism may be used to compensate provinces for cross-boundary flows in level 2 services.

Further work

To make comprehensive recommendations for the NTSG, more work needs to be done. The FFC will therefore:

- evaluate the criteria for allocating the grant among provinces
- assess how appropriately and efficiently the grant is currently being administered
- assess the extent to which the conditions of the grant are in line with the stated policy objectives of the grant so that the grant is constantly being used for the purposes for which it is designed.

Recommendations

In relation to the NTSG, the FFC recommends that:

1. Government continue using the NTSG conditional grant mechanism to finance tertiary services. The reasons for keeping this mechanism and not shifting to the provincial equitable share (PES) are:
    - As most tertiary services and other specialised health services are currently provided in some and not all provinces, externalities in relation to tertiary and other highly specialised health services are likely to persist, at least in the short to medium term. Therefore, it is important for the national sphere of government to support activities that are of importance beyond provincial boundaries through the conditional grant mechanism. Despite government's concerted effort to de-link the NTSG from specific hospitals and to fund 'tertiary services' in all provinces, this will take time.
2. Government clarify why the NTSG is only meant to compensate provinces for cross-boundary flows/referrals relating to level 3 (tertiary) health care services and not level 2 (secondary) health care services.
3. Government develop a national policy framework and clearly define the required minimum level of service for all hospital services, distinguishing clearly between the requirements for secondary and tertiary healthcare services. The framework should also indicate expected service levels, human resource requirements, financial and capital resource requirements, and the funding mechanism for the provision of tertiary and secondary health care services.

1.3. Review of the Health Professions Training and Development Grant

Since its inception, the Health Professions Training and Development Grant (HPTDG) has not been reviewed. A review aimed at assessing whether the grant's design and implementation framework is consistent with its stated policy objectives is therefore necessary. The following analysis, which provides an initial review of the grant, reveals major gaps. Some of the gaps relate to how the grant was designed while others relate to the institutional framework for the implementation of the grant.

The original purpose and objective of the HPTDG

Teaching and research make up a significant proportion of health professionals' daily tasks in provinces with large health sciences faculties. Teaching facilities are generally expensive. The Department of Health originally proposed the grant to serve as a financial subsidy for compensating a province for the additional service costs of funding students, such as medical, dental and nursing students. It was also intended to inject resources into financing the costs of qualified staff participating in teaching and research activities – particularly specialist health professionals. The grant was also intended to contribute to government's redistributive goal of developing capacity to train medical students in areas where this facility did not exist.

A key issue for review is whether the grant's original objectives have changed, and whether all objectives are reflected in the current grant. The objective of the HPTDG as currently stated is: '*to compensate provinces for the additional service costs associated with training health professionals and carrying out research*'.

Allocation trends for the Health Professionals Training and Development Grant

Table 1.2 shows allocations for the HPTDG from 1997 to 2008. In 1997/98, the Department of Health proposed a R1,5 billion allocation for the grant. This amount was accepted by National Treasury and used as a basis for its 1998/99 – 2000/01 MTEF.

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Table 1.2 Allocations and annual change of HPTDG: 1997/98 – 2007/08[9]

Fiscal Year	Allocations (R billion)	Annual % change
1997/98	1,509	
1998/99	1,486	-1.52%
1999/00	1,510	1.62%
2000/01	1,489	-1.39%
2001/02	1,487	-0.13%
2002/03	1,396	-6.12%
2003/04	1,408	0.86%
2004/05	1,434	1.85%
2005/06	1,520	6.00%
2006/07	1,520	0.00%
2007/08	1,596	5.00%

Source: Division of Revenue Act (various years)

It is clear that the pattern for the allocations has been erratic. National Treasury argues that the health sector's persistent lack of progress in carrying out the required research has led to reductions in the grant allocations at times. And possibly, the absence of a clear policy framework which reflects the rationale for the grant also explains the erratic pattern in allocations. For example, there is no year-on-year growth in 2006/07, while the allocation in 2007/08 shows 5 percent year-on-year growth.

Stakeholder views on the training of health professionals in South Africa

A variety of key stakeholders show keen interest in the training and funding of health professionals (see Annexure A1.2). Some of their views clearly demonstrate a frustration with the rationale behind the existing framework and the way it is being implemented, as well as a desire for funding transparency in the way funds are determined and allocated. While it is not possible to convert the views expressed into definitive judgements, there is clearly a lack of a policy framework in the HPTDG environment. A key question is whether the provinces can be left to exercise their discretion in making the policy decisions that govern the provision of these key services, as the grants also serve populations well outside the provincial boundaries.

9. Source: Division of Revenue Act (various years)

1.4. Structural problems identified in the grant

FFC research has highlighted the following problems with the grant:

Institutional issues

There is not enough inter-departmental co-ordination and planning between the departments of Health and Education. In the 2004/05 Division of Revenue Act, Cabinet noted the need to fast-track trilateral discussions between the departments of Health, Education and National Treasury. Co-ordinated efforts by these departments should deal with any potential duplication of efforts and result in more focused planning.

Intergovernmental issues

Many stakeholders raised questions about the location of the training and development of health professionals. In the current legal framework provinces can take decisions about training locations that may be incompatible with the national interest.

Costing issues

The need for an effective financing framework for a grant of this size cannot be overstated. Such a framework should encompass a quantitative assessment to determine whether the grant is being allocated efficiently. The framework will also be useful as a planning tool to estimate the required number of national health professionals, and the training requirements and associated costs on a provincial basis. Even though the funding of registrars is financed out of the HPTDG, no assessment of medical specialists by discipline appears to have been carried out by the national Department of Health.

1.5. Further work

The FFC research into the HPTDG has identified the following related issues that call for further investigation and consideration.

- Research into the feasibility of transferring the grant directly to higher institutions of learning as part of a revised financing mechanism.
- Investigating the extent to which the rationalisation of higher learning institutions will have on the cross-border referrals (for example, the establishment of the University of Limpopo).
- The funding implications of university satellite hospitals and teaching facilities outside provincial boundaries.

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- As some health professionals are not trained in universities (for example, some diploma students are trained in colleges), investigating the extent to which the training of health professionals outside the university system may be undertaken.
- Assessing the use of the HPTDG for other purposes.
- Assessing the extent to which the conditions of the grant are in line with its stated policy objectives so that the grant can be used only for the purposes for which it is designed.
- A study of the challenges faced in financing training and development and research activities in the health sector in South Africa.

Recommendations

In making its recommendations on the HPTDG, the FFC has taken the following considerations into account:

- The linkage of training to academic institutions: The distribution of these facilities is outside the jurisdiction of the health function and is affected by other factors (such as university-based health faculties).
- The uneven inter-provincial distribution of teaching and training facilities in South Africa: This unevenness is both quantitative and qualitative. The training of health professionals is linked to academic institutions concentrated in particular provinces. It is unlikely that these facilities will relocate to poorer provinces.
- Decisions made at the provincial level could be incompatible with the national interest: A key question is whether the policy decision about the training and development of health professionals should be left to the discretion of a province that serves populations well outside its boundaries. For example, if Province X unilaterally decided to halve the intake of medical students, or nursing students, the decision would have national implications.

In relation to the HPTDG, the FFC recommends that:

1. The HPTDG be kept as a conditional grant
2. The HPTDG framework be tightened to make sure that the grant is only used to fund accredited qualifications and training.

2 Financing social welfare services through the provincial equitable share

2.1. Introduction

In its 2004-2007 MTEF submission, the Financial and Fiscal Commission (FFC) proposed that the allocation to social development in the provincial equitable share (PES) distinguish between social security grants and welfare services, and assign amounts to each. In its 2005/06 submission for the Division of Revenue, the FFC also recommended that, in the transition to setting up the South African Social Security Agency, social security grants be converted into a conditional grant. The FFC further maintained that the delivery of welfare services should remain in provinces. This section presents part of the FFC's ongoing research into the financing of social welfare services. The ultimate objective of the research is to determine a long-term sustainable way of financing social welfare services through the intergovernmental transfer mechanism.

2.2. The policy environment

To address the apartheid legacy, government adopted an approach that viewed individual welfare as inextricably linked to economic development. The approach seeks to engage individuals in initiatives that will equip them for productive employment and self-reliance. It also aims to encourage the participation of the socially excluded by building assets for them, and strengthening social capital formation and community and local economic development.

Within a social development framework, the delivery of services is effected by multiple actors, including public institutions, civil society and the private sector.[10] South Africa's approach to social development is characterised in the White Paper on Social Welfare (1997). This document sees social welfare and the economy reinforcing each other and integrates the policies of both in an ongoing dynamic process. When the White Paper was developed in 1995, its focus was national. Implementation at the provincial level was less clearly defined.

In addition, the current concept of clustering national departments around their synergies and complementary functions to achieve integrated development goals and outcomes for the citizenry had not yet been put in place. In light of these blurred boundaries, the structure of developmental social welfare service delivery has been unclear. Without clarity on the nature, scope and level of social welfare, the sector has not been able to define the appropriate norms and standards for service delivery.

Setting clear and concise goals for social welfare services has also been complicated by the legislation preceding the White Paper. To address this problem, Parliament formulated new legislation and is currently amending some of the existing laws.

2.3. A financing framework for social welfare services

A key feature of a good financing framework for social welfare services is that it is well designed.[11] Other features are that it is able to regulate the inefficient provision of services and that it ensures that there is proper rationing of services for the most needy. Regulations should include incentives for efficient service delivery. This means that the framework must allow needs to be prioritised and, what can be delivered within available resources to be quantified. Determining the appropriate service mix presupposes appropriate technical knowledge and training for assessing needs and matching services.

There are a number of models for financing social welfare services. These include the no-public role model, the public financing model, the purchaser-provider model or a mixture of these. Under the

10. Patel, L. "Theoretical Perspectives on the Political Economy of Civic Services", in Perold *et al.* 2003. Service in the 21st Century. Johannesburg: Volunteer and Service Enquiry Southern Africa.
11. See Fox, L and Gotestam, R. 2003. "Redirecting Resources to Community Based Services: A Concept Paper". World Bank: Washington, D. C.

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no-public role model, households provide services or purchase them from providers. This model existed in many countries a century ago and still exists in some countries. Its main disadvantage is under-consumption and poor outcomes because poor households cannot afford the services. The public financing model on the other hand provides services by directly financing public units. It allocates resources to providers instead of individuals in need. Its main disadvantage is the failure to balance between supply and need.

The system of provision in the OECD countries and some developing countries is either direct government provision alongside an NGO or private organisation. In this kind of financing framework, government provides services directly to those in need. In addition, through agency arrangements, it also purchases the provision of some services from non-governmental organisations or institutions in the private sector.

Where an agency or private provider system is adopted for delivering social welfare services, it is essential that it happens alongside direct government provision. It must also be accompanied by other measures such as regulations for accountability, quality assurance through norms and standards setting, the monitoring of outcomes through impact evaluation, and the provision of training for those involved in the sector.

2.4. Challenges to the provision of social welfare services

Basket of services not clearly defined

The most glaring gap in the provision of social welfare services in South Africa has been the lack of both a clearly defined basket of services and the relevant norms and standards for service delivery. This has affected the provision of these services in a variety of ways. Most notably, the absence of norms and standards has made determining financial resources for the provision of social welfare services difficult.

Lack of co-ordination between different role-players

Another challenge facing provinces in providing efficient social welfare services is the lack of co-ordination among the different role players. The relationships between different institutions in the sector are not always clear. Ensuring close partnerships and co-operation between government and the NGO sector has been difficult. Adding to the strain has been the decline in funding and unresolved financing policy agreements. Consultations that the FFC conducted with stakeholders showed that NGOs access funding from a variety of alternative sources. Sources include the Nelson Mandela Children's Fund, the National Development Agency and the National Lottery. However, there is no clear framework for how private funding and public funding should complement each other or whether the current processes are producing the desired outcomes.

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Fragmented network of service organisations

Difficulties in the provision of social welfare services have also been compounded by the fragmented network of service organisations, ranging from community based to national bodies. The fact that many NGOs are structured according to service fields such as children, disability, alcohol and drugs, and mental health can also entrench inefficiency in the way they operate, as they tend to function in isolation and this compromises integrated service delivery. It is therefore important for different service providers and government to maintain links at the programme level.

Resources are concentrated in urban areas

The concentration of resources in urban areas is another challenge facing the provision of social welfare services in provinces. While policy attempting to bring about equity is in place, it has not yet been fully implemented. In some provinces, facilities that benefited from policies from the previous regime are still continuing to receive benefits at the expense of the previously disadvantaged ones. Redistributing services such as child welfare to rural areas is also yet to happen. In some provinces, established NGOs are mainly concentrated in urban areas. For example, in the North West, resources are concentrated in the urban areas of Potchefstroom, Klerksdorp and Rustenburg. Redistributing services such as child welfare and services for senior citizens to more rural areas like Kuruman is yet to take place. In KwaZulu-Natal, Durban is the only area with an established place of safety for children. NGOs are concentrated in cities and towns such as Newcastle and Empangeni and few are found in the province's rural areas like Msinga and Sisonke.

Too few qualified social workers

Human resources present a further challenge to providing social welfare services. In relation to the scale of social problems facing the country, the number of qualified social workers is possibly inadequate. Of the total population of 45 million, 24 million live below the poverty line.[12] The total number of social workers in 2003 was 10 515. Given the direct link between poverty and the demand for social welfare services, one can assume that there is a significant demand for services. And the country's high incidence of HIV and Aids is putting increased social and economic pressure on affected and infected people.

Skewed geographical distribution of social workers

In relation to the geographic distribution of social workers per province, it is also apparent that while poverty levels are higher in rural provinces, these provinces without exception have fewer social workers. Also, in these provinces, more social workers work in the bigger urban centres, rather than in the rural areas. Attrition of social workers as a result of unpleasant working conditions is not only affecting government departments but also non-governmental organisations.

12. Statistics South Africa. 2000.

Summary

It is clear that the different role-players need to integrate their services and co-ordinate their planning for adequate provision of social welfare services to all those in need. For co-ordinated planning, roles need to be clarified. However, this will be difficult to do without a clearly defined basket of social welfare services. Thus, the process of defining the basket of services must not lose sight of the need to clarify roles. Redistributing services more evenly will have to be pursued vigorously if all the vulnerable sectors of society are to be reached. Government should focus investment on training social workers if it is to meet the social development obligations and goals it has set for itself.

Shifting the function of social security grants administration to national government holds some potentially good prospects for social welfare services. Among others it may lead to the policy and institutional stasis that has so far characterised these services being addressed.

2.5. The relationship between social welfare services and social security

The inadequate financing and provision of social welfare services has been attributed to the increase in payment of social security grants. Social security grants continue to consume a large proportion of funds allocated to the social development function in provinces.

Possible impact of shifting social security to the national sphere

Although the shifting of the function of social security grants to the national level is a positive development, there is uncertainty about its eventual implication for social welfare services. There are a number of possible scenarios: 1) After the function has been shifted, there may no longer be the need to prioritise social security grants first and then deal with social welfare services as a more peripheral priority. 2) The function shift could lead to decreased funding for welfare services, a downgrading of the function, waning political commitment to social welfare at provincial level, and the possibility that social welfare may not warrant a separate national ministry and department. This could lead to welfare services becoming even more marginalised. 3) Welfare departments may be combined with other departments at provincial level. 4) Social security could be viewed as a threat to social welfare services, leading to practitioners becoming less committed to the principle of safety net. Moreover, there is a further danger that the social development function may be reduced to the payment of social grants, thus losing the empowerment and developmental thrust of social welfare.

It is important to recall that the FFC has recommended that the status quo on social welfare services be maintained and that no drastic changes be undertaken until the effect of the function shift has been properly assessed.

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High child poverty rates lead to more involvement in the child welfare system

Extensive research on the relationship between income support and family involvement in the child welfare system shows that high child poverty rates imply increased involvement in the child welfare system.[13] It is particularly important to ensure that the national and provincial departments of social development find ways to minimise unintended negative consequences of the function shift when it is fully phased in. Ways to maintain the link between social security grants and social welfare services need to be devised. The complementary relationship is essential where the goal is to provide individuals with comprehensive welfare services. The long-term fiscal implications for not maintaining the link could be far-reaching.

2.6. Trends in social welfare expenditure

The fiscal allocation to social development is made incrementally. Analysis of the most recent spending by provincial governments on social welfare services offers some insights into the service priorities of respective provincial social development departments. Table 2.1 shows that the allocation appropriated for administration, compared to other services, varies substantially among provinces. It is significantly higher in the poorer provinces than in the relatively well-off provinces.

Patterns of allocation differ from province to province

In provinces with strong and more numerous NGOs, for example, the Western Cape and KwaZulu-Natal, bigger allocations were made in the form of subsidies for social welfare services. In the Western Cape a large proportion of the funds are spent on care for the aged in institutions. The largest proportion of the provincial social welfare services budget is allocated to child and family welfare services. These include services to children and families, including all levels of intervention. As these are broadly defined, the figures can be misleading because persons in the other services categories are almost all members of families, whether they need assistance with substance abuse problems, are elderly in need of services, or are in conflict with the criminal justice system.

13. Waldfogel, J. 2003. "Welfare Reform and the Child Welfare System". Paper presented to the Joint Centre for Poverty Research, Washington, DC. 20–21 March. Loffell, J. 2004. Policy Responses to Child Sexual Abuse in South Africa, in *Sexual Abuse of Young Children in Southern Africa*, edited by Linda Richter, Andrew Dawes and Craig Higson-Smith. Cape Town: Human Sciences Research Council.

Table 2.1 Share of sub-programmes in total social welfare services expenditure (2003/2004) [14]

Programme	Administration	Substance Abuse	Care of Older Persons	Crime Prevention & Support Grant	Persons with Disabilities	Child & Family Protection
Eastern Cape	33%	2%	20%	1%	6%	38%
Free State	1%	1%	30%	1%	6%	61%
Gauteng	0%	7%	25%	10%	15%	44%
KwaZulu-Natal	24%	5%	15%	2%	10%	44%
Mpumalanga	39%	4%	17%	4%	9%	27%
Northern Cape	45%	2%	9%	9%	6%	28%
Limpopo	46%	1%	8%	3%	3%	38%
North West	4%	1%	26%	14%	29%	26%
Western Cape	3%	6%	29%	23%	8%	33%

Source: Provincial Budget Statements, 2004/2005

A comparison of expenditure on social security grants and social welfare services in provinces, as shown in Table 2.2, reveals that expenditure on social welfare services has declined in most provinces over the years. On the other hand, expenditure on social security grants over the same period has increased. This confirms the view that within the social development budget, provinces are directing funds into the social security grants programme.

Table 2.2 Spending share of social welfare services and social security in total provincial social development expenditure [15]

	Social Security			Social Welfare		
	2001/2002	2002/2003	2003/2004	2001/2002	2002/2003	2003/2004
Eastern Cape	93.4%	94.1%	94.3%	4.7%	3.8%	3.0%
Free State	88.7%	90.2%	90.3%	7.9%	6.3%	5.4%
Gauteng	81.6%	84.9%	87.3%	9.0%	8.4%	7.6%
KwaZulu-Natal	92.8%	93.7%	94.5%	4.8%	4.0%	3.4%
Mpumalanga	93.0%	92.0%	93.7%	4.7%	5.2%	3.2%
Northern Cape	87.6%	88.2%	88.8%	8.4%	7.2%	6.1%
Limpopo	95.7%	95.9%	95.1%	2.6%	2.1%	2.0%
North West	92.2%	91.7%	92.1%	2.1%	1.9%	2.2%
Western Cape	81.9%	85.1%	85.1%	12.9%	10.0%	8.6%

Source: "Trends in Intergovernmental Finance 2000/01 – 2006/07", National Treasury.

14. Source: Provincial Budget Statements, 2004/2005
15. Source: "Trends in Intergovernmental Finance 2000/01 – 2006/07", National Treasury

Further work

The FFC will undertake further research on social welfare services over the next MTEF cycle. This next phase of research will try to estimate the level of demand for social welfare and to calculate a rough national average cost of what it takes to deliver these services. Furthermore, the FFC will engage the national Department of Social Development to discuss how to develop norms and standards for social welfare services. Annexure A2.1 and Annexure A2.2 show the range of social welfare services, the relevant legislation and some of the outputs and beneficiaries at the provincial level.

Recommendations

For the financing of social welfare services, the FFC recommends that:

1. Specific consideration be given to allocating funds to social welfare services in the provincial equitable share (PES) for the following reason.
   - Although in the past, the FFC has recommended a separate consideration for allocations to social welfare services in the provincial equitable share, it reiterates this recommendation. This is particularly in light of the potentially negative outcomes that the shifting of social security may have for important beneficiaries of these services.
2. Government works faster to set the norms and standards for the delivery of a defined minimum basket of social welfare services by provinces for the following reasons:
   - The sector must engage in a comprehensive process to define exactly what it does and how it does it, and what it will cost.
   - Because inputs are diverse and it is difficult to quantify social welfare service interventions, there is a need to develop a rigorous, transparent and robust way of calculating the reasonable operating costs of efficient and effective social welfare services.
   - Minimum norms and standards should preferably be informed by country level priorities and norms, while local needs, goals and anticipated outcomes should be reflected at the provincial level.
   - To ensure uniformity and compliance, national legislation and policies should inform the basis for the norms, standards and mechanisms that will determine the cost of providing social welfare services.

3 Framework for the assignment of powers and functions in South Africa's intergovernmental system

3.1. Introduction

Ten years into the development of the intergovernmental fiscal system in South Africa, many matters related to the assignment of powers and functions have yet to be resolved. These unresolved matters have implications for the local government sphere in particular.

First, there is the phenomenon of 'unfunded mandates'.[16] Unfunded mandates can be implicit or explicit. In either case, particularly when they are implicit, they may be difficult to measure. For example, if housing standards are raised but the subsidy amount for housing delivery does not fully reflect the cost of the new statutory requirement, municipalities may be forced to provide their own contribution to the subsidy. But where a municipality takes on an obligation voluntarily, for example, implementing a higher standard than the statutory one, this cannot be called an 'unfunded mandate'.

16. An unfunded mandate is defined as an obligation that is assigned through legislation, regulations, or policy to a sphere of government without the necessary resources being made available to fulfil that obligation.

Second, there is no clear delineation of responsibility for some functions that are shared by the different spheres of government. For example, some municipal roads have yet to be classified as either district or local roads. This can result in these kinds of roads not being maintained.

Third, where functions are the responsibility of one sphere of government and carried out by another sphere, there is sometimes uncertainty about the nature of the transfer of the function. It is not always clear whether it is an assignment, delegation, or agency agreement. This makes it difficult for municipalities to plan and budget for the function.

Unfunded mandates, unspecified responsibilities, and new obligations within existing functions have created a number of financial consequences. One of these is that there may be significant misalignment between the powers and functions assigned to the spheres on the one hand, and the fiscal resources on the other. Another is that municipalities in particular carry increased accountability and reporting responsibilities for functions that they carry out on an agency or delegation basis without the commensurate funding or capacity.

3.2. Assessment of institutional and funding frameworks for health, housing, transport, and municipal policing

The Department of Provincial and Local Government (DPLG) has developed a draft Policy Framework for the Assignment of Powers and Functions to the Local Government Sphere (June 2004).

Draft policy framework defines different types of decentralisation

This draft framework addresses some of the issues outlined above. It provides clear definitions of the various forms of decentralisation, such as deconcentration, assignment and delegation. It also outlines existing provisions for assignment in legislation. However, this is not comprehensive, as it does not cover all the legislation that originated in national line function departments. Finally, it sets out the principles that should inform decisions around the assignment of functions, such as the criteria for assessing whether a function should be assigned.

The draft framework notes that, in terms of the Constitution, there are three legal methods for decentralising: assignment, delegation and agency agreements. Because of the problems experienced with agency agreements, the framework recommends that only assignment or delegation be considered. [17]

The draft framework is a welcome contribution to regularising the decentralisation process in South Africa. However, it applies only to functions that are assigned to local government, and excludes function shifts from the national to the provincial sphere.

17. This has the following legal implications:

Assignment involves the transfer of the authority for the function. This transfer is permanent and therefore not subject to revocation. If a function is assigned to a municipality, that municipality can choose to provide the function itself or appoint a service provider (which can be another municipality or an outside agent);

Delegation involves only the transfer of the provider function. For example, a province can delegate primary health care services to a district municipality; however the final responsibility for ensuring that the service is adequately delivered still rests with the province.

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In addition, a number of issues remain unresolved and these are outlined below. The analysis in this section is based on research carried out by the FFC into the institutional and funding frameworks for the delivery of health, housing, and transport, and it encompasses issues relating to the provincial and local spheres of government.

3.3. Assignment mechanisms

As functions fall under different national line departments, different frameworks and legislation have been developed to guide the decentralisation process.

Transport

The National Land Transport Transition Act of 2000 states that the relevant provincial MEC and municipalities can establish a transport authority. The governing body of the transport authority comprises councillors from the constituent municipalities. The functions for the transport authority are outlined in the legislation, but the funding arrangements are left quite vague. The legislation states that the province and each municipality 'can contribute' funding. Only Durban has introduced a transport authority to date.

In addition, transport consists of a number of discrete components, including: a) public transport; b) vehicle licensing and registration; c) motor vehicle testing; d) driver's license testing; e) traffic law enforcement; and f) roads. Each of these requires specific co-ordinating arrangements with the local sphere.

Housing

The National Housing Act of 1997 makes provision for municipalities to be 'accredited'. This allows them to administer national housing programmes directly, rather than having to work through the provincial housing authorities. However, while housing subsidies would flow directly to municipalities, funding for the administration of the programme would come from the municipality. To date, no municipalities have applied for accreditation. (To some extent, this is because municipalities cannot simultaneously be accredited and act as developers – see Section 9(2)(b) of the National Housing Act). The accreditation process will need to address how the administrative costs associated with housing delivery will be funded in order to avoid an implicit unfunded mandate.

Health

The National Health Act of 2003 makes provision for the establishment of district health councils, where members are municipal councillors in the health district and persons nominated by the provincial health MEC. However, the council's role is to advise, rather than to deliver services. The authority and funding of such bodies is unclear, especially in cases where the municipalities play no direct role in providing health services.

The different provisions for each function make it administratively onerous for municipalities to deliver services for those functions. For example, municipalities must report to the relevant provincial department for the delivery of each function, and each department has its own reporting requirements. In addition, it requires the creation and management of different financial accounts.

3.4. Consequences of the lack of an assignment framework

South Africa does not currently have an assignment framework. (This is different from the draft Framework for the Assignment of Powers and Functions to Local Government, as outlined above). In addition to the different frameworks for the decentralisation of various functions, there are other consequences flowing from the absence of an overall assignment framework.

Unclear mandate of the local government sphere

The competencies of national, provincial, and local government are outlined in schedules 4 and 5 of the Constitution. However, there are a number of functions that are concurrent national/provincial functions, but legislation has assigned specific responsibilities to local government (as with the National Housing Act). It is unclear how these responsibilities should be funded, as they are not part of local government's constitutional mandate.

Ad hoc arrangements

In the Western Cape, equipment for registering and licensing motor vehicles was initially supplied by the province, but new equipment must be bought by municipalities. The province carries the full cost of traffic law enforcement in the Western Cape (R72 million for 2004/05), but all traffic fine income is retained by municipalities, even where provincial officials issue the fines. The sum total of expenditure need and income flows is therefore not clearly quantified for either the province or municipalities. Essentially, ad hoc arrangements are made as different situations arise, but these may produce difficulties later: for example, the need to determine which organ of state owns an asset or who is subsidising whom.

Provincial legislation and policy

In the absence of a framework, provinces are initiating legislation to fill in the gaps or they are developing policies that may lead to funding requirements later. For example, the Western Cape transport department is seeking to classify all roads in the province. While this is needed at a national level, carrying out such an exercise provincially will make it difficult in future

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to quantify the expenditure need for roads, as different provinces may have different approaches to road classification.

3.5. Funding issues

Existing decentralisation provisions do not either specify funding sources (as in the case of transport authorities) or expect municipalities to fully fund the service (as in the case of administering housing programmes).

In some cases, funding is theoretically provided, but in practice municipalities contribute significant own revenues. For example, in the case of housing subsidies, municipalities receive funding from provinces to conduct environmental impact assessments (EIA), but this funding covers only a portion of the actual cost. In the case of health care, it is likely that municipalities will be expected to top up funding for primary health care (PHC) services if they wish to maintain a level of service provision that is higher than the national norm.

A trend in recent years is that municipal expenditure on the housing, transport, and health functions has increased significantly to fund these additional responsibilities. For example, roads expenditure increased by 54 percent in the local government sphere from 2002/03 to 2003/04.

It is important that the assignment process makes sure that funding arrangements are finalised at the same time as the function is assigned. For example, the assignment of disaster management to local government was accompanied by funding recommendations from the FFC. However, the Disaster Management Bill was finalised in 2002 before the agreement on funding arrangements was reached, and – apart from a small conditional grant for provinces – most of the recommendations of the Financial and Fiscal Commission (FFC) have not been addressed.

3.6. Definitions and norms and standards

Key factors bedevilling the assignment of functions, and that are directly related to funding concerns are: the lack of clear definition of functions; the absence of norms and standards; and, in the case of transport, the lack of a comprehensive road classification system. The following are issues specific to each function.

Environmental health

Government has not specified the range of activities that comprise environmental health service delivery. This is complicated by the fact that local municipalities, that are not responsible for environmental health services, generally carry responsibility for functions that are essential components of environmental health, such as noise pollution and air pollution. This has necessitated laborious negotiations between local municipalities and their respective district municipalities around the division of responsibilities.

Primary health care

Government has not specified the norms and standards for the delivery of primary health care services. There is therefore no estimated cost of the basket of minimum services, and this complicates the development of service delivery agreements in the case of delegation.

Roads

The national Department of Transport is currently involved in classifying roads. However, there is significant confusion about provincial/district roads and district/local roads. [18] 'Public transport' is not clearly defined in legislation, and minibus taxis are by default excluded as they do not currently receive commuter subsidies.

Housing

The new National Home Builders Registration Council specifies the minimum building standards for houses. The standards were developed in response to concerns about the poor quality of subsidised houses. However, complying with these new standards has significant financial implications, and the increased subsidy amount does not fully cover these additional costs.

The Department of Provincial and Local Government's draft framework recommends that functions should not be assigned to local government while there is not a clear definition of the function. To this should be added the requirement that norms and standards should also be specified. This is because it is not possible to adequately estimate the costs of providing the service without specifying the relevant norm or standard.

3.7. Developmental local government

The Auditor-General has questioned cases where municipalities deliver services that are not strictly within their constitutional mandate. The standard response of such municipalities is to say that the delivery of that function falls broadly within local government's constitutional developmental mandate. This provides a loophole for almost any publicly provided service to be categorised as 'developmental', and some thought should be given to developing a more focused definition of 'developmental' local government.

18. Roads in South Africa are generally classified into five categories (some provinces only have four categories): trunk (national) roads, provincial main roads, divisional roads, minor roads, and access roads. National and provincial government are responsible for the first four categories, except in cases where a provincial road has not been formally proclaimed (this leads to confusion between provincial and district municipal roads). Streets have traditionally been the responsibility of local municipalities. With the recent demarcation process, local municipalities are now 'wall-to-wall' within district boundaries. It is therefore unclear which roads are the responsibility of district and local municipalities respectively.

Providing services broadly classified as 'developmental' has significant implications for the intergovernmental fiscal system. Metropolitan areas and large municipalities in South Africa deliver many services that are not available in smaller, fiscally weak municipalities. Their delivery of a broader and generally, better range of services is usually supported by a large tax base. However, the expenditure from these additional services as well as the additional fiscal resources required have never been quantified. In the absence of a uniform framework, it is difficult to compare the fiscal gap among municipalities in South Africa and to design intergovernmental transfers accordingly.

3.8. Transfer of staff

Where a national department or a province wishes to decentralise services, this is complicated by the absence of a single public service. If a national or provincial authority wishes to assign or delegate a function, this results in significant cost implications if the function is delivered by a sphere of government with higher staff costs. For example, in the case of health services in the Western Cape, the primary reason for deciding that the province would deliver all primary health care services was the estimated cost of staff transfers from provinces to municipalities Another example is municipal police services. The South African Police Service has sometimes experienced an exodus of personnel because of the generally better remuneration structure of municipal police services.

The Department of Public Service and Administration is presently drawing up a framework for creating a single public service, to address this problem.

3.9. Implication for the equitable sharing of revenue

It can generally be said that municipalities with significant fiscal capacity are providing services that are not strictly within their mandate, such as libraries and municipal police services. On the other hand, fiscally weak municipalities provide a very limited range of services. The differences in expenditure assignment among municipalities has never been fully assessed and quantified. Ultimately, this has significant implications for the equitable sharing of nationally collected revenue and the equitable delivery of services.

Recommendations

1. The DPLG Framework on the Assignment of Powers and Functions to Local Government and the instruments that give effect to the framework should be finalised as a matter of urgency.
2. An intergovernmental assignment framework that applies to all three spheres of government should be developed. This framework should seek to:
   - identify the location of powers and functions according to generally accepted intergovernmental fiscal principles as outlined in sections 41(1), 126, and 156 of the Constitution
   - ensure that agreement on funding arrangements is reached before a function is assigned
   - develop criteria for assessing whether a sphere of government has sufficient capacity to fulfil a function
   - rationalise the current institutional arrangements for assigning or delegating functions.
3. Monitoring capacity should be established in the national sphere of government to ensure that assignment and delegation processes are consistent with the intergovernmental framework for the assignment of functions.
4. For any function that may be assigned or delegated, government should:
   - develop a clear definition of that function
   - develop norms and standards for that function, to understand service level responsibilities and the concomitant funding implications.

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4 Assessment of the institutional and funding framework for housing delivery in South Africa

4.1 Introduction

The Bill of Rights (Chapter 2) of the Constitution recognises basic rights, including the right to adequate housing. South Africa is one of the few countries to include the right to housing in its Constitution. The right to housing is subject to progressive realisation and government must show that it has worked as effectively as possible to achieve this right.

Section 214 (2) of the Constitution requires that when deciding how revenue is divided, the following factors must be considered:

- the obligations of the provinces and municipalities in terms of national legislation;
- the need to ensure that provinces and municipalities are able to provide basic services and perform the functions allocated to them; and
- the fiscal capacity and efficiency of the provinces and municipalities.

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This analysis provides an overview of the financing and delivery challenges in housing. It begins with an overview of the institutional and funding framework and then gives some insight into the delivery and financing trends.[19]

4.2. Institutional and funding framework

White Paper on Housing

Government's White Paper on Housing proposed a national housing strategy [20]. It also formulated government's national housing vision in which government strives to establish viable, socially and economically integrated communities, situated in areas allowing convenient access to economic opportunities and health, educational and social amenities. All South Africans should have access, on a progressive basis, to a permanent residential structure with secure tenure, ensuring privacy and providing adequate protection against the elements, to potable water, adequate sanitary facilities (including waste disposal) and a domestic electricity supply.

Government's goal in the White Paper was to increase housing's share of the total government budget to 5 percent, to increase housing delivery on a sustainable basis to a peak level of 338,000 units per annum within a five-year period, and to reach the target of 1 million houses in five years (starting in 1994).[21] The extent to which this has been achieved is addressed below.

The Constitution and the right to adequate housing

The Constitution deals with two key issues that are of direct relevance to housing. These are the specific right to access adequate housing (section 26 of the Constitution) and that, in relation to housing, the powers of national, provincial and local government are concurrent.[22]

In addition, the Grootboom judgement and the National Housing Act underscored the responsibilities of municipalities for supporting housing delivery, such as making land available.

National and provincial governments have the legislative and executive authority to make sure that municipalities carry out their functions effectively. It is their responsibility to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions.[23]

Grootboom[24] is a well-documented Constitutional Court case, concerning respondents that had constructed an informal settlement on private land earmarked for low-cost housing. The case sought to answer whether or not the state had taken reasonable measures to achieve progressive realisation of the right to housing.

19. The information in the analysis is supported by interviews with provincial and municipal officials in three provinces as well as a record of a conditional grants seminar convened by the national Department of Housing.
20. Department of Housing, *White Paper on Housing*, 1994
21. Department of Housing, *White Paper on Housing*, 1994.
22. See also Section 156 of the Constitution
23. National Housing Code.
24. Government of South Africa and others v. Grootboom and others 2001(1) SA 46.

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The court's decision helped to clarify the constitutional right to housing in the following ways:

- It provided useful insight into how international law should apply to the right to access to adequate housing.
- It enumerated some of the requirements needed to make housing 'adequate'.
- It recognised that the provision of housing involves both state and non-state actors.
- It recognised that the state's obligations may differ across jurisdictions depending on the needs of residents.
- It emphasised the importance of clearly defining the role of each sphere of government in providing access to adequate housing and holding it accountable for its obligations.
- It drew a distinction between the right to access to housing in s 26 of the Constitution and the right to shelter in s 28(1)(c) of the Constitution.

The right to adequate housing is therefore more than just the right to a shelter. Housing is necessary for privacy, personal space, a social gathering point, protection from weather, and security. The house itself must be physically adequate. The legal regime must allow for security of tenure and protect people from discrimination, and the housing must be in close proximity to the basic services needed to realise other rights.

Legislation

The National Housing Act of 1997 and National Housing Code were designed to accelerate the progressive realisation of the right to housing and to uphold section 26(1) of the Constitution. The Extension of Security and Tenure Act of 1997, the Rental Housing Act of 1999, and the Prevention of Illegal Evictions Act of 1998 were created to provide security of tenure and to uphold section 26(3) of the Constitution.

The National Housing Act[25] clarifies the different roles and responsibilities of the three spheres of government and sets out how the national housing programme is to be financed. It also makes sure that all housing activity in South Africa takes place within the framework of the Constitution and establishes various statutory bodies such as the national and provincial housing boards.

The roles of the three spheres of government as prescribed in the National Housing Act are briefly described below.

National government

Through the national Department of Housing, national government is responsible for developing national housing policy, assisting provinces and municipalities to develop goals for housing delivery, and monitoring performance. It also helps municipalities develop the capacity to manage and perform their housing obligations.

25. National Housing Act No. 107 of 1997, including subsequent amendments.

The national government must review the National Housing Code to meet these obligations, and keep provinces and municipalities updated on any changes to the code. Section 4(6) of the Housing Act provides that the National Housing Code is regarded as legislation and is binding on the provincial and local spheres of government.

The national housing policy outlines the funding framework for housing development, and allows for an allocation from the government budget for housing to be negotiated and secured. The policy provides for allocations to provincial governments, municipalities and other national housing institutions that implement national housing programmes.

Provincial government

Through their respective housing departments, provincial governments are responsible for developing provincial housing policy within the national framework. They are allowed to legislate on housing matters that fall within their provincial boundaries, as long as the legislation is not in conflict with national legislation. They approve housing subsidies and projects and provide support for housing development to municipalities. They also assess municipalities' applications for accreditation to administer national housing programmes, and monitor the performance of accredited municipalities.

Local government

As part of its integrated development plan, every municipality must make sure that within the framework of national and provincial legislation and policy, constituents within their jurisdictional regions have access to adequate housing.

Municipalities initiate, plan, facilitate, and co-ordinate appropriate housing development within their boundaries, either by engaging developers to undertake projects or by playing the role of developer. Municipalities also set aside, plan and manage land for housing development.

The National Housing Act sets out the responsibilities of local government for providing housing in section 9(1) of the Act.

Municipalities may be accredited

Municipalities may participate in the national housing programme through a process of accreditation. To become accredited, a municipality must apply to the Member of the Executive Council (MEC). After consulting with the relevant provincial housing board, the relevant MEC will allocate funds to the municipality for the Housing Subsidy Scheme or any other national housing programme. Accreditation empowers a municipality to undertake similar functions to provincial governments as it receives, evaluates and approves or denies applications for subsidies. It also prepares a local housing strategy and sets housing delivery goals.

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Municipalities may act as developers

The procurement policy governing the housing subsidy system allows for municipalities to act as developers in the housing delivery process. A developer initiates, manages and executes housing projects. A developer can be an organisation in the private sector, a public sector institution, or a non-governmental or community-based organisation.

A municipality may either be a developer or become accredited

Section 9 (2)(b) of the Housing Act states that:

> "If a municipality has been accredited under section 10(2) to administer national housing programmes in terms of which a housing development project is being planned and executed, such a municipality may not act as a developer, unless such project has been approved by the relevant provincial housing development board."

This clause means that a municipality must decide either to assume the role of a developer or to become accredited, which means administer one or more national housing programmes.

Municipalities need to submit business plans for housing development projects

As part of their integrated development plan, municipalities wishing to participate in housing development are required to submit business plans for housing development projects. Business plans have to conform to prescribed norms and standards as set out in the National Housing Code. Once business plans have been approved, municipalities enter into contracts with a province to undertake a specific development project. Municipalities have to claim expenditure incurred from the provincial housing development board.

4.3. Funding framework [26]

The Housing Act requires national and provincial government to develop a multi-year plan, the medium term expenditure framework. This provides a plan for the delivery of houses that is mindful of housing demand and potential supply in terms of available funds for a period of three years. In this regard, it is closely linked with the housing delivery goal. The Minister of Housing prepares a multi-year plan on the basis of multi-year plans prepared by the provincial governments.

The national Department of Housing administers two grants, namely the Housing Subsidy Grant and the Human Settlement Redevelopment Grant. The Housing Subsidy Grant is the bigger of the two, with allocations amounting to about R5 billion in 2004/05, and is expected to maintain a high growth rate over the MTEF period, while the Human Settlement Redevelopment Grant is also expected to increase but from a low base.

26. The National Housing Act requires each province to establish a Provincial Housing Development Fund through provincial legislation. All money allocated from the South African Housing Fund to a province is to be deposited into its Provincial Housing Development Fund.

The Housing Subsidy Grant

The Housing Subsidy Scheme is government's primary housing delivery programme. There are six main criteria for a person to be eligible to apply for a housing subsidy, including age and household income.[27] Beneficiaries are required to make a R2 479 contribution up front in order to qualify for a subsidy. In certain cases, such as with the aged or disabled, the requirement is waived. Beneficiaries building their own homes through the people's housing process projects are also exempt from this requirement.

As the provision of housing for the poor is a national priority, national government did not incorporate the housing subsidies in the equitable share transferred to provinces. The conditional grant enables the national government to provide for the implementation of housing delivery in provincial budgets and to monitor provinces accordingly. The national Department of Housing is currently undertaking a major review of this grant.

From the National Housing Fund, money is allocated to provinces based on a formula that was determined by the Housing MinMec and approved by Cabinet in 2001. The formula takes into account:

- the needs of each province as measured by the housing backlog
- factors such as homelessness, shack dwelling, caravan dwelling, tents, backrooms, rooms in flats
- a poverty indicator measured by households earning less than R3,500 per month in each province
- a population share factor as measured by each province's share of total population.

The formula elements are weighted in order of priority as defined below:

$$A = HN\ (50\%) + HH\ (30\%) + P\ (20\%)$$

Where:

- A = Allocation
- HN = Housing need
- HH = Households earning less than R3,500 per month (affordability indicator)
- P = Population

27. National Department of Housing.

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Housing need in the formula is defined on a weighted formula that takes into account the following:

HN = HL (1,25) + SE (1,2) + SBY (1,0) + TC (1,0) + FR (0,5)

Where:

- HN = Housing need
- HL = Homeless people
- SE = Shacks elsewhere
- SBY = Shacks in backyards
- TC = Tents and caravans
- FR = Flats or rooms on shared property

Human Settlement Redevelopment Grant

The Human Settlement Redevelopment Grant promotes urban regeneration by funding projects and activities that cannot be funded through other government programmes. Provinces identify and prioritise projects that facilitate access to infrastructure and services, upgrade the environment and increase opportunities for social and economic development. Examples include the provision of informal trading facilities, detailed planning initiatives through which integrated development is facilitated, and urban regeneration initiatives, such as upgrading public open spaces.

4.4. Housing delivery and financing trends between the three spheres of government

Housing backlog

When the new housing programme was introduced in 1994, South Africa's housing backlog was estimated at approximately 1.5 million households. This was excluding the large number of rural households. Since then, the programme has provided poor people with more than 1.6 million housing opportunities, benefiting some 6 million people.

Despite the scale of housing delivery, there has been a growth in the size of informal settlements. Based on the 2001 census, the Department of Housing estimates the current housing backlog to be in the region of 2.4 million households. This is an increase of almost 9 percent from 1996, when the housing backlog was estimated at 2.2 million households.[28] Karuri *et al* suggest that the escalating backlog may be because of factors such as initial inaccuracies in housing backlog estimates, increasing rates of urbanisation, unemployment and population growth.[29]

Another factor is a change in household size. Between the 1996 and 2001 census, the average population growth rate was 2 percent per annum. At the same time, there has been a 30 percent increase in the absolute number of households, where only a 10 percent increase was expected. The reason for this is the drop in average household size from 4.5 people per household to 3.8, and this has serious consequences for housing demand and service delivery.[30]

Table 4.1 shows the breakdown of the housing backlog by province for 1996 and 2001.[31] Only two provinces, the Eastern Cape and the Northern Cape, have managed to decrease their housing backlogs in the period between 1996 and 2001, while Gauteng's housing backlog increased by almost 20 percent. This is a direct reflection of population trends: Northern Cape's population decreased by 2 percent between 1996 and 2001, the Eastern Cape's increased by only 2 percent, and Gauteng's increased by almost 20 percent (see Census 2001).

Table 4.1: Housing backlog by province[32]

Province	1996	2001	1996-2001 % change
Eastern Cape	223,427	220,524	-1.3
Free State	204,191	219,191	7.3
Gauteng	731,780	877,492	19.9
KwaZulu-Natal	322,415	323,429	0.3
Limpopo	103,243	112,503	9.0
Mpumalanga	136,474	144,574	5.9
North West	215,343	241,523	12.1
Northern Cape	39,705	33,733	-15.0
Western Cape	225,941	226,853	0.4
Total	**2,202,519**	**2,399,822**	**9.0**

28. C. van der Westhuizen (2004). Comparative Provincial Housing Brief. Idasa, *Budget Brief* No. 145; and National Treasury, *Trends in Intergovernmental Finances* 2004.
29. Karuri, Geci, Dennis Macozoma and Lucy Chege (2002). *Sustainability and Social Infrastructure Delivery in South Africa.* Report produced for the UNDP South Africa.
30. National Treasury, *Estimates of National Expenditure 2004*, page 796.
31. C. van der Westhuizen (2004). *Comparative Provincial Housing Brief.* Idasa, Budget Brief No. 145.
32. National Treasury, *Trends in Intergovernmental Finances 2004*; C. van der Westhuizen (2004). *Comparative Provincial Housing Brief.* Idasa, Budget Brief No. 145

As table 4.2 shows, census figures indicate that even though there was a 7 percent increase in the proportion of households living in formal housing, 36 percent or 4.1 million households were living in informal, traditional, backyard and other dwellings in 2001.

Table 4.2 Access to housing

Distribution by dwelling type	Census 2001			Census 1996			Percentage change
	African	Others[33]	Total	African	Others	Total	
Formal	55%	92%	**64%**	45%	89%	**57%**	7%
Informal	20%	3%	**16%**	21%	2%	**16%**	0%
Traditional	19%	2%	**15%**	25%	1%	**18%**	-16%
Backyard	5%	3%	**5%**	8%	4%	**7%**	-2%
Other[34]	0%	0%	**0%**	2%	3%	**2%**	-2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	

Source: Censuses 1996 and 2001

Beneficiaries of government's housing programme have experienced problems with the quality of housing. These may relate to location, size, lack of access to services, poor thermal performance, and low resistance to damp. This explains government's policy shift from delivering quantity to building quality houses.

Delays in the delivery process

Underspending on housing grants has been a consistent problem. This is directly related to delays in the housing delivery process. The most common reason for delays is the complex process that municipalities have to follow with provincial government departments. When a municipality develops a housing project, it must seek approval for each stage in the process from the relevant provincial department, such as the departments responsible for environment, planning, and transport. This can lead to numerous delays in the delivery process, as each provincial department has its own procedures and timeframes. Table 4.3 highlights the most typical delays for a low-cost housing development scheme in the City of Cape Town: [35]

33. 'Others' include Coloured, Indian/Asian, and White population groups.
34. Dwelling category 'other' includes tent or caravan and private ship/boat for the 2001 census. For the 1996 census it includes caravan or tent, unit in retirement village none/homeless, and unspecified.
35. City of Cape Town research document reference. March 2000.

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Table 4.3 Housing development process – City of Cape Town

Steps:	1. Township Establishment	2. Sales Administration	3. Land Servicing	4. House Construction
A	Securing rights to land	Preparation of allocation procedure	Servicing agreement	Preliminary design report
B	Land investigation into legal cadastral position of land[1]	Advertising of project	Bulk services investigation/feasibility	Finalisation of product
C	Submit project application to PHDB[2]	Preparation of allocation lists/approvals	Assessment of physical features of sight	Detailed design and specification[6]
D	Town planning layouts etc	Signing of legal documentation[4]	Preliminary design report	Tender process and award
E	Township establishment[3]	Registration of transfer	Finalisation of level of service	Completion of contractual requirements
F	Land surveying	Progress drawdown	Detailed design and specification[5]	Construction of houses
G	Preparation of conditions of establishment		Tender process and award	Completion of hand over process
H	Compliance with conditions of establishment		Completion of contractual requirements	Final drawdown
I	Opening township register		Construction of services	
J	Progress drawdown		Completion/hand over process	
K			Progress drawdown	
Note: average project size is 1000 units, divided into phases of approximately 250 units.				

1. Delays experienced with provisional local government approval of projects.
2. Evaluation and approval by the Provincial Housing Development Boards (PHDB) evaluation processes by various PAWC departments are often too long. Project submissions sometimes miss closing dates of the PHDB agendas. Social Compact Agreement (prerequisite by PHDB): delays in obtaining consensus by all role players.
3. Delays in obtaining clearance certificates.
   Documents referring to land transferred from PAWC to local authorities go missing. Original deeds have been lost. Delays in obtaining new certified copies of the deeds.
4. Delays in obtaining beneficiary approval lists from the PHDB.

5 & 6. Approval of land servicing and house standards: local authority approval process on finalisation of servicing and building standards is slow. Sometimes there is a lack of co-ordination between the project manager and the officials of the council.

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The use of smaller contractors in projects is often cited as a factor affecting the smooth implementation of housing projects, since smaller contractors are more likely to collapse or suffer from cash flow problems during delivery. Another reason given for inadequate spending is that business plans for conditional grants are often submitted late and are of poor quality. [36]

Provinces with tribal areas in their jurisdiction face a further challenge. For land to be proclaimed for housing, the legal owner must be identified and ownership of the land transferred. Traditional leaders hold the land in trust and when land is proclaimed the land no longer falls directly under the chief's jurisdiction. This means that some traditional leaders are reluctant to facilitate the housing process and this also leads to delays. North West Province addressed this issue by entering into 99-year leases with traditional leaders.

The accreditation process

If a municipality wants to be involved in housing development, it must decide whether it will take on the role of a developer in housing development, or administer one or more national housing programmes. The Housing Act does not allow a municipality to be both accredited and a developer at the same time.

Accreditation empowers a municipality to undertake similar functions to provincial governments as it receives, evaluates and approves or denies applications for subsidies. It also prepares a local housing strategy and sets housing delivery goals. No municipalities are accredited in terms of national legislation at present. This is because they are either performing the role of developers or they are reluctant to accept the administrative and financial implications of accreditation. [37]

Because of the delays in the housing process, a considerable advantage of accrediting a municipality would be that the municipality would be able to fully co-ordinate the selection, application, and approval processes for the beneficiary subsidies. Financial and Fiscal Commission (FFC) research shows that referrals to the province for detailed beneficiary queries can lead to considerable delays.

However, the beneficiary application process is time-consuming, and even if a municipality were accredited, the process of the municipality, instead of the province, dealing with queries from developers would still be time-consuming.

Another advantage of municipal accreditation is that funds flow directly from national government to the municipality. This would reduce administration costs to the province, and municipalities would have improved access to housing funds. As a developer, a municipality receives funds from the province on a progress payment basis, so the municipality often uses funds earmarked for other purposes to begin the housing project.

There are a number of reasons that municipalities might be hesitant to become accredited. Firstly, there may be a lack of capacity in most municipalities. To receive and process housing subsidy

36. Housing Conditional Grants Seminar, 20 October 2004.
37. Interviews: W Muller, Director Housing Finance, City of Cape Town metropolitan municipality, August 2004; J. Kuhn, Manager of Housing Research, City of Cape Town metropolitan municipality, August 2004; L van Stavels, Head of Housing Services, Stellenbosch local municipality, August 2004; F. Swanepoel, Manager of Housing Provision and Project Planning, Tshwane metropolitan municipality, August 2004.

allocations is administratively demanding. Adequate capacity would probably be found only in metropolitan municipalities and secondary cities.[38] Secondly, only the housing subsidy funds would be transferred to municipalities, and not the funds required for administering the subsidies. As table 4.4 shows, provinces with a dedicated housing department spend on average just over 5 percent of their budget on the administration of the housing programme.

Table 4.4 Provincial expenditure on housing administration [39]

Province	Percentage					
	2001\02 Outcome	2002\03 Outcome	2003\04 Estimate	2004\05 MTEF	2005\06 MTEF	2006\07 MTEF
Gauteng	8.18	7.54	8.33	4.83	4.27	4.53
KwaZulu-Natal	4.97	5.04	4.46	6.17	6.25	6.25
Western Cape	4.57	3.84	4.57	4.15	4.54	4.70
Average Percent	5.90	5.47	5.79	5.05	5.02	5.16
	Outcome (R, 000)		Estimate (R, 000)	MTEF (R, 000)		
Gauteng	74,979	106,898	105,304	68,866	70,603	78,871
KwaZulu-Natal	41,568	45,979	51,278	58,162	61,257	64,934
Western Cape	17,344	16,131	15,323	22,913	25,176	27,478
Total Amount	**133,891**	**169,008**	**171,905**	**149,941**	**157,036**	**171,283**

The assignment option

Section 156 of the Constitution states that national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 if that matter would most effectively be administered locally and the municipality has the capacity to administer it.

Assignment would differ from the housing accreditation process in the following ways:

- Municipalities are accredited to administer a housing programme, rather than the housing function as a whole as with assignment.
- Accreditation is not permanent, whereas assignment is.
- The accreditation process is not subject to the procedures for assignment, as outlined in the Municipal Systems Act, 2000 and the Financial and Fiscal Amendment Act, 2003. This implies that the funding arrangements in the accreditation process are not subject to rigorous approval by National Treasury or recommendations from the FFC.

Interestingly though, adopting either option is unlikely to have a significant impact on speeding up housing delivery, as many of the delays relate to the need for provincial approvals, such as

38. Interviews: W Muller, Director Housing Finance, City of Cape Town metropolitan municipality, August 2004; J. Kuhn, Manager of Housing Research, City of Cape Town metropolitan municipality, August 2004; L van Stavels, Head of Housing Services, Stellenbosch local municipality, August 2004; F. Swanepoel, Manager of Housing Provision and Project Planning, Tshwane metropolitan municipality, August 2004; L. Botha, Director Housing Admin, Gauteng Province, October 2004.

39. Source: C van der Westhuizen. 2004. *Comparative Provincial Housing Brief.* Idasa, Budget Brief No. 145; and National Treasury: Provincial Budget Statements.

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environmental impact assessments, these will still be required. While the housing subsidy application process could be speeded up, this is unlikely to have a significant impact in the short to medium term, because of the substantial local capacity that would have to be created.

The only major advantage of assigning the entire housing function to a municipality, rather than accrediting it to administer a programme, is that the municipality would have more say over broader housing policy issues, like setting norms and standards.

4.5. Building quality houses

A key funding issue arises from the policy shift to building quality houses instead of the previous focus on quantity.[40] Government has ensured this policy shift gets implemented through measures such as new norms and standards approved by the national Department of Housing. These include:

- The National Homebuilders Registration Council (NHBRC), which imposes certain standards for housing construction that must be met. Registration is compulsory for every developer.
- The Occupational Health and Safety Act, 1993 also imposes certain requirements for construction.
- An environmental impact assessment (EIA) must be done in all areas earmarked for housing.

But these measures have been implemented without taking into account the resulting increase in costs to the developer in completing a project. A further concern is that the subsidy amount alone does not cover the cost of building a complete house.[41] Municipalities absorb these additional costs. Municipalities with a large tax base are able to contribute their own funding, but poorer municipalities lack the resources to do so.

Although the emphasis on building quality houses will be ultimately beneficial and create more sustainable housing solutions, it is also contributing to delays in housing delivery as it lengthens the project approval process.

4.6. Rental housing

Rental housing stock inherited from the previous dispensation is a major issue for provinces and municipalities. There are very high maintenance costs and arrears, which seem to be increasing. Table 4.5 gives an example of the net cost of public housing of the City of Cape Town. Although rental housing generates some income, arrears and maintenance costs result in a significant net loss to the metro.

40. Interview: S. Maqetuka, Chief Director Housing Department, Provincial Government Western Cape.
41. Interviews: L van Stavels, Head of Housing Services, Stellenbosch local municipality, August 2004; W Muller, Director Housing Finance, City of Cape Town metropolitan municipality, August 2004.

Table 4.5. City of Cape Town public housing [42]

Original Budget (R)	2002\03	2003\04	2004\05
Revenue	88,879,433	168,504,240	421,205,040
Expenditure	221,413,730	222,335,678	564,244,512
Net Cost to Metro	-132,534,297	-53,831,438	-143,039,472

FFC research shows that some provinces and municipalities would like to get rid of their rental stock because of the high costs that they carry. In Cape Town, for example, rental houses have been transferred to their long-term tenants. While the tenants are obliged to pay for the houses on an instalment basis, the city is experiencing problems with arrears on these installments.[43]

In Gauteng, research shows that rental housing is a possible solution for reducing the housing backlog.[44] Many people who come and work in Gauteng while their families stay in the rural areas are not eligible for housing subsidies. Also, some do not wish to be homeowners, either because they do not settle permanently or because owning a home is too expensive.

Despite the problems that provinces and municipalities experience with rental stock, in 2004 the Minister of Housing announced that government would promote the development of rental housing units.

4.7. Relationship between housing construction and service charge arrears

The housing subsidy grant is earmarked for provision of subsidies to low-income households. As many of these households have difficulty in saving the minimum R2 479 contribution, it is highly likely that they will not be able to maintain the monthly service charges. This leads to a problem at the municipal level, where service charge arrears escalate. Consequently, it becomes costly for the municipality to continue to provide essential services such as water, sanitation and refuse removal.[45]

But the issue of arrears is a much broader one. There is ongoing debate in South Africa about the extent to which poverty or poor municipal collection efforts contributes to the arrears situation.

42. Source: City of Cape Town Budget Statements.
43. Interviews: W Muller, Director Housing Finance, City of Cape Town metropolitan municipality, August 2004; J. Kuhn, Manager of Housing Research, City of Cape Town metropolitan municipality, August 2004; L van Stavels, Head of Housing Services, Stellenbosch local municipality, August 2004; S. Maqetuka, Chief Director Housing Department, Provincial Government Western Cape.
44. Interview: L. Botha, Director Housing Admin, Gauteng Province, October 2004.
45. Interviews: W Muller, Director Housing Finance, City of Cape Town metropolitan municipality, August 2004; L van Stavels, Head of Housing Services, Stellenbosch local municipality, August 2004; F. Swanepoel, Manager of Housing Provision and Project Planning, Tshwane metropolitan municipality, October 2004.

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Recommendations

1. In cases where municipalities have the capacity to become accredited to administer housing programmes, government should ensure that there is available funding for administering housing subsidies. The accreditation processes should reduce the delays in rolling out housing delivery.
2. Government should consider the funding implications of any further policy changes, for example, when higher building standards are specified nationally.
3. Funding gaps should be avoided, particularly in municipalities with weaker fiscal capacity.
4. A sustainable financial framework for the ongoing demands of rental housing schemes should be developed.
5. Consideration should be given to linking new housing subsidies with the municipal infrastructure grant (MIG) and the equitable share formula to ensure that the municipalities can deliver basic services to poor households. In doing so, the following should be taken into account:
   - the need to provide municipalities with appropriate incentives to extend municipal infrastructure and spend funds efficiently and effectively
   - the need to achieve equity in addressing the expenditure needs of local government
   - the need to take account of the differing capacities of municipalities
   - the need to ensure that local equity share allocations keep pace with the installation of new housing infrastructure.
6. Government should address housing delivery bottlenecks to reduce under spending in provinces, resulting from:
   - delays in local and provincial government planning approvals (such as EIA, transport plans and social compact agreements)
   - the lack of project management capacity in some provinces and municipalities
   - delays in proclaiming land, where this falls within traditional communal areas.

5 Transport funding issues in South Africa

5.1. Legislative and policy framework

Schedules 4 and 5 of the Constitution outline the various transport functions of the spheres of government. Public transport, road traffic regulation and vehicle licensing are concurrent Schedule 4A functions of the national and provincial spheres. Provincial roads and traffic is an exclusive Schedule 5A provincial function. Municipalities are responsible for municipal airports (where relevant), municipal public transport and municipal roads (schedules 4B and 5B).

A number of agencies that deliver transport services are accountable to the national sphere of government:

- South African National Roads Agency Limited (SANRA): responsible for the design, construction, maintenance, and management of national roads.
- South African Rail Commuter Corporation: responsible for passenger rail regulation and transport services.
- Road Traffic Management Corporation: co-ordinates road traffic management and law enforcement between the three spheres of government.

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- Civil Aviation Authority: regulates air traffic and civil aviation.
- Cross-Border Road Transport Agency: regulates cross-border passenger, freight and road transport.

The South African National Roads Agency Limited, the South African Rail Commuter Corporation and the Road Traffic Management Corporation will be discussed as they are particularly relevant to the delivery of transport services across the three spheres of government.

Table 5.1 Transport functions and funding

	Functions	Funding
National	Civil aviation Commuter rail National roads	Department of Transport allocations to Civil Aviation Authority, SA Rail Commuter Corp, SA National Roads Agency, and SA Maritime Safety Agency
	Vehicle licensing (concurrent) Road traffic regulation (concurrent)	Department of Transport budget vote
Provincial	Provincial roads and traffic Road traffic regulation (concurrent) Vehicle licensing (concurrent)	Provincial equitable share and own revenue
Local	Municipal roads Municipal public transport	Own revenue Conditional grants (national and provincial)

Where some of the functions overlap

Not all the roads in South Africa have been classified, although the Department of Transport is currently developing a new classification system that would include all municipal roads.[46] It is only possible to determine which sphere is responsible for addressing the backlog in construction, rehabilitation and carrying out maintenance duties once the classification process has been completed.

There are also overlaps in the public transport function and how it has been assigned to national, provincial, and local government, particularly in relation to funding.

Also, both provinces and municipalities enforce regulations.

Some of the areas of overlap have been caused by the re-demarcation of municipalities that took effect in December 2000. This created 'wall-to-wall' municipal boundaries. Before then, district municipalities had taken responsibility for areas outside towns and cities. The new boundaries pose particular challenges for classifying roads.

46. See Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002.

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National Land Transport Transition Act (2000)

This Act outlines the respective responsibilities for transport services of the three spheres of government. The Act aims to group transport functions into a single, well-managed and focused institutional structure called a transport authority. Transport authorities are set up through agreements between the relevant provincial MEC and municipalities, and the governing body consists solely of councillors in the constituent municipalities (see Section 10 of the Act). The boundaries of transport authorities do not have to be contiguous with municipal boundaries.

The key functions of transport authorities are to develop and implement transport plans. The Act does not make it clear how the transport authorities will be funded, stating only that the Minister of Transport and municipalities can contribute to their funding.

Section 4 of the Act sets out principles for national land transport policy, including affordability, integration, cost-efficiency, subsidies aimed at marginalised users, and user charges and cost recovery where appropriate.

To date, Durban is the only place in South Africa to have set up a transport authority. The Department of Transport is exploring the possibility of setting up another one in the Cape Metropolitan Municipality.[47]

There are a number of reasons that there are so few transport authorities in South Africa. Firstly, transport authorities do not have specified sources of income, as expressed in the Act's broad stipulation that organs of state 'can contribute' to funding. Secondly, the governing body consists solely of councillors. This is not conducive to co-operative planning between the province and the relevant municipality.[48] These issues would need to be resolved before more and effective transport authorities can be set up.

5.2. Transport as a constitutionally mandated basic service

An argument has been made that it is government's responsibility to make sure that roads and other modes of transportation are safe. In 1999, it was estimated that there were 700,000 road accidents in South Africa, with road surface conditions contributing to about 20 percent of these accidents.[49] Government may therefore potentially be faced with litigation for road accident deaths and injuries. Recent court decisions have considerably expanded government's obligations in their emphasis on the right to public safety. In *Graham versus Cape Town Metropolitan Council* concerning the twice-fatal consequences of the deterioration of Chapman's Peak Drive, the High Court of South Africa declared that

47. Department of Transport, *Comment on Employment and Economic Growth to the Joint Budget Committee*, 2 November 2004; Interview with M. Mazaza (Director: Cape Metro Transport), 30 November 2004.
48. Interview with J. van Heerden, S. Fenner, C. Bosman, B. Veldman, D. Fourie, F. Schwabe, & P. Beets, Western Cape Department of Transport, 27 January 2005.
49. P. Myburgh, *Toward a Safer Road Environment*, Pretoria: CSIR, 1998.

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> …the defendant was under a duty to exercise such due care and to take such reasonable precautions as circumstances, particularly weather conditions, might require avoiding or minimising the risk of injury to road users. A duty of care towards road users should now apply to the controlling public authority unless there is a valid basis for its exclusion.[50]

The national Department of Transport has recently stated in a policy document that its road infrastructure framework 'recognises constitutional rights'. [51]

The right to good transport infrastructure is linked to other rights such as basic housing, health care, and education. Where rural people can access these facilities only by unsafe roads, there may be a constitutional obligation to upgrade or rehabilitate that road.[52]

5.3. Transport infrastructure, economic growth, and poverty alleviation

Transport infrastructure also plays a crucial role in a nation's economy. It is widely agreed that transport infrastructure facilitates trade, increased social integration, and improved access to employment opportunities.[53] The converse of this is that poor roads have a serious negative effect on economies, resulting in lower agricultural output, increased costs of road transport, and higher net costs to the economy.

The role that transport plays in poverty alleviation should be not under-estimated. People need physical access to healthcare, education and employment opportunities. A World Bank report notes that it is difficult to reduce poverty when there is inadequate transport infrastructure, and the national Department of Transport agrees with this. [54]

5.4. Funding framework for transport in South Africa

General expenditure trends

South Africa's road network is approximately 752,000 km, comprising 532,000 km of classified roads and 220,000 km of unclassified roads. Historically, many of the unclassified community access roads have been neglected. The value of rural road networks is estimated to be about R300 billion to R350 billion, and that of rural provincial roads without drainage representing R205 billion of the total.[55]

Table 5.2 summarises the current network according to the responsible sphere of government. Of note is the category of 'unproclaimed rural roads', which makes up a large proportion of the total

50. D. Ross, V. Maphai, B. Kantor, P. Collins, T. Lodge, and H. Ngubane, *The Under-provision and Under-capitalization of Road Maintenance, Rehabilitation and upgrading in South Africa: Analysis and Measure toward Improvement*, Study commissioned by the Southern African Bitumen Association, 2001, page 13.
51. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002.
52. D. Ross *et al*, *The Under-provision of Road Maintenance*, page 17. While there may no be case precedents on this issue in South Africa, it should be noted that General Comment 13 of the International Covenant on Economic, Social, and Cultural Rights states that schools must be within safe physical reach of housing settlements or accessible by means of affordable and safe transportation. Although South Africa has not ratified the Covenant, constitutional case law has made frequent reference to the Covenant.
53. J. Madick, *Economic Returns from Transportation Investment*, Virginia: Eno Transport Foundation, 1996, p. 37; H. Joynt, "Developing an appropriate solution for the financing of Municipal Road Infrastructure for Development," Unisa: M. Admin thesis, 1999, page 30.
54. World Bank, *Sustainable Transport: Priorities for Policy Reform*, 1996; Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002; Department of Transport, *Comment on Employment and Economic Growth to the Joint Budget Committee*, 2 November 2004.
55. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002.

network, but little is known about the length and condition of the actual roads. All roads in South Africa fall within the exclusive and original competency of municipalities, unless they have been proclaimed provincial or national roads under legislation.[56] This means that the responsibility for all unproclaimed roads currently rests with the local sphere of government.

Table 5.2. Spheres of government responsible for roads in South Africa

Road Authority	Length (km)	Network Split
National roads	6,700	1%
Provincial roads	357,000	47%
Unproclaimed rural roads	221,000	29%
Municipal roads	168,000	23%
Total	**752,700**	**100%**

Source: Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002, Section 3.4.

The road network has been steadily deteriorating over the last two decades. In Gauteng, for example, the percentage of roads in a healthy state declined from 78 percent in 1985 to 57 percent in 2002. Approximately 35 percent of all surfaced provincial roads have been assessed as being in a 'poor to very poor' state.[57]

This deterioration has significant financial and economic implications. The South African National Roads Agency has estimated that a delay in road maintenance of three to five years increases the required repair costs by between six and 18 times. The value of one of South Africa's assets may well decline to a point where it will be difficult to halt the widespread deterioration of the road network. [58]

To try to prevent this from happening, government is allocating significant funding to the construction, rehabilitation, and maintenance of infrastructure, with public sector capital expenditure increasing by an average of over 15.6 percent a year over the 2005 MTEF. The funding allocated specifically to transport infrastructure is as follows:

- An additional R1.35 billion will be allocated to roads and passenger rail infrastructure.
- The total MTEF allocations for provincial infrastructure and municipal infrastructure grants are R12.7 billion and R18.5 billion respectively, and a portion of this is intended for road infrastructure.
- The Expanded Public Works Programme will support transport infrastructure projects through labour intensive construction methods.
- Transnet expects to spend R28 billion on port and rail infrastructure.[59]

56. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002.
57. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002.
58. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002, Sections 4.3.5 & 5.1.
59. National Treasury, *Medium Term Budget Policy Statement 2004*.

The policy framework for transport

The Moving South Africa action plan of 1998, the implementation plan emanating from the Transport White Paper of 1997, sets out an integrated strategy for improving and maintaining transport infrastructure in South Africa. This strategy document encompasses all forms of transportation, including maritime transport and aviation, and seeks to achieve the appropriate mix of all the modes of transport. For example, the plan proposes to shift more transport from road to freight as freight is generally more efficient and cost-effective. Implementing this strategy will have implications for the overall funding requirement for roads in the longer term.

In November 2002, the Department of Transport published its Road Infrastructure Strategic Framework for South Africa: A Discussion Document. The framework makes the following broad proposals:

- Establishing a statutory roads co-ordinating body, with representation from all three spheres of government. This body would control a road fund that would disburse funding for roads through conditional grants.
- Developing a new road classification system for South Africa. This would clearly allocate responsibility for each class of road to the three spheres of government.

The framework leaves many funding questions unanswered. Firstly, if a national road fund is created and is funded by earmarked funds from the fuel levy, as proposed by the Department of Transport, what are the implications for the provincial equitable share that is intended to fund provincial roads through the basic and economic components of the provincial formula? Secondly, if a national road fund is created, what proportion of municipal roads will be financed through this fund, and to what extent will a municipal authority's fiscal capacity affect allocations?

National government expenditure

Table 5.3 shows the national Department of Transport's budget for 2004/05.

Table 5.3. Department of Transport's budget vote, 2004/05

Programme	MTEF Estimate: 2004/05 (R'000)
Administration	76,751
Transport Infrastructure	1,472,366
Land Transport Regulation and Safety	255,451
Transport Policy	38,778
Aviation and Maritime Transport	117,503
Public Transport Operations	4,709,848
Transport Planning	83,347
Road Traffic Infringements	5,000
TOTAL	**6,759,044**

Clearly the biggest items in the budget are transport infrastructure and public transport operations, and most of this expenditure consists of transfer payments, shown in table 5.4.

Table 5.4. Transfers to public and private transport agencies

Transfer Item	Transfer Amount 2004/05 (R'000)
South African National Roads Agency	1,440,789
South African Rail Commuter Corporation	2,528,550
Bus subsidies	2,158,040
TOTAL	**6,127,379**

Ninety-one percent of the transfers are dedicated to the delivery of transport services, including current and capital expenditures. While 24 percent of these transfers is for national roads, clearly a responsibility of the national sphere, the other 76 percent of subsidies is transferred to public and private agencies directly.

Assessment of commuter subsidies (rail, bus, and taxis)

Spatial planning during apartheid led to significant distances between mainly black residential areas and the areas where black people work and shop. These distances are a feature of both urban and rural areas: in urban areas, the relatively impoverished African, Coloured, and Indian townships are far from the city centres, and in rural or semi-rural areas, 'dormitory townships', usually located in the former bantustans, are far from the urban centres to which residents must commute on a daily or weekly basis. The substantial, ongoing transport subsidies reflected in the Department of Transport's budget vote aim to address this structural distance problem.

Municipal planners are largely responsible for resolving the problems created by apartheid's spatial arrangements, by integrating landscapes that were (and continue to be) separated along racial lines. The location of new settlements needs to fully address distances and transport linkages. The National Land Transport Transition Act of 2000 specifies that transport planning must form an essential part of municipal integrated development plans, and that municipalities should give priority to 'infilling and densification' along transport corridors (Section 18).

Two funding issues need to be noted. First, if municipalities can rely on transport subsidies to continue into the future, they have less incentive to make appropriate planning decisions and promote densification and this cuts down on recurrent transport costs. If municipalities received these subsidies directly, they would be able to use the funds to support their long-term spatial plan. At the same time, the gradual phasing out of some portion of the subsidies would be an incentive to plan appropriately.

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Second, the separation of responsibility for planning (municipalities) from budgeting (via national rail and provincial bus subsidies) may not promote efficient and accountable decision-making. In certain instances, economies of scale can be maximised through a centralised system.

The funding and management of the bus subsidies service is fragmented. National government enters into contracts with service providers, and provinces play an administrative role in verifying claims. However, there is no provision for monitoring service delivery, either by the province or national government.[60] As buses form an integral part of commuter traffic in municipalities, it could be argued that bus subsidies be devolved to municipalities in the longer term.

A further issue is the extent to which commuter subsidies have been directed at buses rather than taxis. This does not reflect commuter trends, with taxis carrying over 60 percent of commuter traffic in South Africa as a whole, buses only 18 percent, and commuter rail 22 percent.

Provincial and municipal expenditure on roads

Expenditure on roads infrastructure by metros represents 50.7 percent of the total budget in 2003/04, reflecting the considerable road networks and usage in metro areas, as well as their considerable fiscal capacity.

Table 5.5. Provincial and municipal roads expenditure, 2002/03 to 2003/04

Provinces	2002/03	2003/04 (Preliminary outcome)
Eastern Cape	1,315	1,431
Free State	336	292
Gauteng	541	523
KwaZulu-Natal	838	1,181
Limpopo	659	829
Mpumalanga	479	450
Northern Cape	128	127
North West	165	265
Western Cape	598	539
Metros	891	1,481
Other Municipalities	1,006	1,439
TOTAL:	**6,957**	**8,558**

Source: National Treasury, *Trends in Intergovernmental Finances*; 2000/01-2006/07, 2004.

Roads expenditure increased by 54 percent in the local government sphere from 2002/03 to 2003/04, and increased by 11 percent in the provincial sphere. As there is no dedicated funding mechanism

60. Interview with J. van Heerden, S. Fenner, C. Bosman, B. Veldman, D. Fourie, F. Schwabe, & P. Beets, Western Cape Department of Transport, 27 January 2005.

for municipal roads in South Africa,[61] a considerable proportion of municipal own revenue has been diverted to roads infrastructure in the last two years. In 2002/03, when combined provincial and municipal roads expenditure was R6.9 billion, the annual needs for municipal roads infrastructure was estimated at a minimum of R18 billion.[62]

There is a current trend for provincial roads to be re-classified as national roads and for the South African National Roads Agency to take over their management. Of the 7,900 km of roads that have been or will soon be re-classified, about 7,000 km are roads in the Free State. In most cases, the roads are being re-classified ostensibly because provinces do not have the funds to maintain them.[63] In other cases, provincial roads are re-classified when national government wishes to prioritise the upgrading of or additional construction on a road, as with the R300 in the Western Cape.[64] This is cause for concern, as this process appears to be happening on an ad hoc and arbitrary basis. As the basic and economic components of the provincial equitable share fund the provincial road network, when this responsibility is transferred to national government funding cannot then be transferred. There are two reasons for this: Firstly, the reason for the transfer is that the provinces concerned cannot afford to maintain their network, and are therefore transferring the responsibility for those roads without transferring any funding. Second, there cannot be an overall deduction from the equitable share to provinces, as the transfer of responsibility for roads only applies to some provinces (in particular the Free State).

There is clearly a need for a comprehensive classification of roads in South Africa. This would clarify responsibility for different classes of roads for the three spheres of government, and would provide some indication of the related expenditure needs. This would in turn inform the institutional funding framework for roads. Clear classification criteria need to be properly developed before roads are classified.

5.5 The pricing of roads

Economics of transport infrastructure

The many externality costs associated with road infrastructure or the lack of it include:

- Road accidents: South Africa has a poor road safety record; with a fatality rate of 10 per 100,000 vehicle km (nine times that of the United Kingdom). This has implications for health care costs and lost productivity.
- Increased vehicle operating costs: A World Bank study estimated that for every dollar spent on maintenance, between US$3 and US$22 are saved on vehicle operating costs. [65]
- Truck overloading: this is the principal source of road damage.
- Noise and air pollution.
- Traffic congestion: this results in productive time being lost.
- A rise in land values (and thereby property taxes): this is a positive externality. [66]

61. The current framework for the local government equitable share does not include an allocation for municipal roads or municipal public transport.
62. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002, Section 8.4.1.
63. National Treasury, Medium Term Budget Policy Statement 2004, page 62; Department of Transport, *Comment on Employment and Economic Growth to the Joint Budget Committee*, 2 November 2004. The figure of 7,000 km was mentioned by a DoT official in response to a question from a Parliamentarian.
64. Interview with J. van Heerden, S. Fenner, C. Bosman, B. Veldman, D. Fourie, F. Schwabe, & P. Beets, Western Cape Department of Transport, 27 January 2005.
65. Heggie, *Management and Financing of Roads*, page 7.
66. See Department of Transport, *Moving South Africa*, 1998, section 7.3.2; Joynt, "Financing Municipal Road Infrastructure," page 38.

Generally, all spheres of government disregard the negative externalities of poor roads. This leads to consistent under-budgeting for road maintenance. Even where fuel levies and vehicle licence fees are dedicated to road maintenance, these rarely cover more than 50 percent of maintenance expenditure.[67]

The national Department of Transport supports the position that certain roads should be brought into the marketplace and operated and maintained on a fee-for-service basis through user charges.[68] User charges would be channelled into a dedicated fund that covers the costs of maintaining main roads.

For pricing the usage of roads under the jurisdiction of local authorities, one possibility is grant-matching, as this encourages local authorities to undertake only priority projects. Matching grant funds would come from national budget funding or road tariffs and this funding would have to be allocated through an objective mechanism.[69]

The pricing of road usage should be investigated further, as it could have significant implications for the intergovernmental fiscal framework.

Transport related taxation in South Africa

The only component of the fuel levy that captures transport externalities is the Road Accident Fund levy. However, this is limited, as the fund does not compensate for all of the losses associated with traffic injuries and deaths.

Table 5.6. Fuel levy on leaded petrol and diesel, 2004/05

	93 Octane petrol	Diesel
General fuel levy	111.0	95.0
Road Accident Fund levy	26.5	26.5
Customs and excise levy	4.0	4.0
Illuminating paraffin marker	-	0.2
Total:	**141.5**	**125.7**
Tax as % of pump price	37.4%	36.4%

Source: Adapted from National Treasury, *Budget Review* 2004.

For the fiscal year 2000/01, R15.9 billion was collected in fuel levies and paid into the National Revenue Account, and R1.7 billion was collected by provinces from vehicle licence fees. Less than half this amount was spent by road authorities on national and provincial roads. [70]

67. Heggie, *Management and Financing of Roads*, page 23.
68. Heggie, *Management and Financing of Roads*, page 2; Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002, Section 5.2.
69. Heggie, *Management and Financing of Roads*, pages 74 & 81.
70. Department of Transport, *Road Infrastructure Strategic Framework for South Africa: A Discussion Document*, November 2002, Section 5.2.

Recommendations

- Government should ensure that the following is implemented as a matter of urgency:
  - Developing criteria and processes for classifying all roads and assigning each class of roads to the respective sphere of government or category of local government.
  - Assessing the length and condition of all roads, and the estimated expenditure need for rehabilitation and maintenance arising from this.
- Government should develop a coherent funding framework for roads in South Africa. This framework should consider the role of the provincial equitable share and existing provincial and municipal infrastructure grants.
- Government should consider the devolution of bus and taxi subsidies to municipalities where the capacity exists to manage these services.
- Government should implement mechanisms to improve the efficiency of inter-modal transport planning.
- Government should address certain issues that need to be resolved for setting up transport authorities, including funding arrangements and how the authorities' governing bodies are constituted.

Progress report on the Financial and Fiscal Commission's work on Learner Support Material

[Part B]

This part of the submission presents a progress report on the work that the Financial and Fiscal Commission (FFC) is doing on the provision of learner support materials to schools. While the submission does not make any recommendations for the division of revenue for 2006, it nevertheless highlights some problems that the education system faces in the provision of learner support materials. The report is based on a very small sample of schools surveyed by the FFC. For substantive recommendations to be made on the basis of a more representative sample of schools, the study will be expanded.

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1 Learner support material

1.1. Introduction

In its submission for the Division of Revenue Act 2005/2006, the FFC commented on the financing of learner support materials. The comments were based on an initial study that indicated inadequate and erratic expenditure on learner support material. The FFC further indicated that it would carry out a small survey of schools and provinces to identify the problems associated with the provision of learner support material. The survey has since been carried out, and although based on a very small sample of schools, it does show that there are many problems associated with the provision of learner support material and that these are more pronounced in rural areas.

The survey involved administering a questionnaire addressed to a sample of 20 schools in three provinces and a separate questionnaire addressed to provincial education departments in three provinces for control[71]. The questions addressed to schools covered:

- the availability of textbooks and stationery
- the supply of learner support material

71. Twenty-two schools consisting of seven schools in the Eastern Cape, seven schools in the Free State and eight schools in the Western Cape in urban, semi urban and rural areas.

- the causes of shortages
- per learner allocations
- the lifespan of textbooks
- the buying cycle
- the control of learner support materials in schools
- school funding choices.

The following analysis summarises the results of the survey and highlights the problems that were identified.

1.2. The schools survey

Per learner allocation of learner support materials at school level

In the schools that were surveyed, results showed that differences exist in the resource allocation per learner. In allocating the required learner support material (LSM), schools give preference to secondary grades. In secondary grades, it is mostly grade 12 that has the required textbooks and stationery. But in some cases the required number of textbooks and stationery per learner is not met at all. From grades 8 to 11, schools sometimes require parents to buy the necessary stationery. From the sample survey, the minimum number of textbooks required for these latter grades is almost always not met. Preference is given to grade 12 because of the pressure on schools to produce high pass rates for matriculants at end of the year.

Availability of textbooks and exercise books in schools

The survey results show that the number of textbooks available in schools and the basic number of textbooks required per grade varies according to the grades. The costs of textbooks differ significantly between grades. Grade 10 to12 LSM cost is higher than that of primary grades. In primary grades generally learners do return textbooks while in secondary grades most learners do not. The survey showed that in primary grades (grade 1 to 3) the number of required textbooks is adequately provided, although more is required for outcomes-based education (OBE). OBE requires textbooks to be written in experimental mode rather than experiential mode. In grades 4 to 6 there is a need for a variety of textbooks so that learners can be exposed to alternative views.

For grades 7 to 9, there has always been a shortage although the situation is improving as more textbooks are printed and distributed. Grade 8 is the first grade of secondary school. The results of the survey show that there are few secondary schools in rural areas where learners can be admitted after finishing primary school. This results in learners overcrowding in a few schools and in abnormal learner admission patterns. Thus, requirement projections on the number of learners and textbook and stationery quantities are very difficult to predict.

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For grades 10 to 12 there is a general shortage of textbooks. In grade 11 it is caused by the abnormal repetition rates. Some of the reasons for the failure rate in grade 11 include the pressure on schools to produce high pass rates in grade 12. This results in "gate keeping" of the learners, learners deciding not to write exams, and high dropout rates. In grade 12, the reasons include learners opting to repeat grade 12 to improve symbols to enter tertiary institutions.

The survey results suggest a better scenario for exercise books than for textbooks. For grades 1 to 3 the survey shows that stationery is adequately provided, while in grades 4 to 9, more exercise books are generally required. This is because the curriculum has changed to learning areas requiring more workbooks. In the provision of 'counter books' there are shortages in secondary schools (10-12). More 'counter books' are used for projects and class work than the exercise books supplied. Generally the schools interviewed acknowledge that there is a great improvement in the delivery and availability of stationery.

Causes of shortages in learner support material

According to the survey results, there is no single explanation for the acute shortage of textbooks in schools. The situation is not identical in all schools. Clear differences exist among schools within an area as well as between areas.[72] Some schools expressed concerns that funding for learner support material is not clearly defined in budgets. A lump sum amount for learner support material is provided without guidelines on how it should be allocated between textbooks and stationery.

The migration of learners is another factor contributing to the shortages of textbooks in schools. Learners move either from one school to a nearby school or from rural to urban schools within and among provinces. In the case of the former, a reason for migration is the lack of proper infrastructure in the schools. An example is in the Free State where all learners moved to a nearby school because of the dilapidated conditions of the classrooms. Migration from rural to urban schools is due to the perception that the urban schools are better resourced. This migration puts pressure on schools to admit more learners.

Repetition rates are higher in secondary schools than they are in primary schools. This results in an incomplete net flow ratio of 12 years of schooling, as learners do not progress from one grade to the next. The consequences are that textbooks and stationery do not circulate as intended. The Department of Education's Back to School Campaign has been a success in terms of improving enrolments and dropout rates. This in turn has led to an increased demand for textbooks in schools. The current requisition system requires schools to fill in orders through the requisition forms and then they are sent to their respective provincial education departments. The provincial education departments verify the information given and capture this onto a database. Schools see this process as cumbersome because of the number of schools in each province. For example, schools indicated that though they follow this process of ordering textbooks, more often than not they do not get the ordered material. The departments repeatedly ask for the sent requisition forms claiming they were

72. There are distinctions between primary and secondary grades as well as established and newly established schools.

not received. Furthermore, it is believed that the drawn-out provincial tender board procedures and processes contribute to the delay, supply and shortage of textbooks in schools.

Another cause for concern is that in some cases, once books are delivered to schools, storage facilities for the books are either inadequate or non-existent. For example, the survey showed that in some schools a principal's offices are used as the storeroom for LSM.

Another problem associated with the shortage of LSM is the need to provide mother tongue textbooks. Often, schools receive textbooks in the wrong mother tongue. This was particularly true in the Eastern Cape and the Free State. In certain instances the textbook had not been printed. In some schools textbook management systems such as issue and asset registers are inadequate or non-existent.

The buying cycle of textbooks

The survey results show that schools do not buy textbooks every year. Requisitions are made for supplementing existing stocks, for replacement of damaged or lost books, or supplementary orders to meet higher enrolment needs. Due to the curriculum changes, schools have been ordering textbooks to meet the requirements of the new curriculum, though in most cases they do not receive the ordered material. In some cases, it was reported that textbooks ordered specifically for the new curriculum were not received.

The lifespan of textbooks

The survey results show that textbooks last for five to seven years in secondary grades and three to five years in primary grades.

Control of learner support material in schools

The control of learner support material depends on the location of the school and the relevant management systems. Some schools have effective monitoring systems. A learner is given a textbook and this is recorded in the issue register form and the form is signed by both the parent and the learner. If a learner fails to return the textbook, the parent is held liable for its replacement. In these schools the survey shows that the return of textbooks is generally more regular. However, in some schools where there is no monitoring of the distributed and lost textbook the textbook shortage is aggravated.

Choices for school funding

Schools have a choice in determining their levels of school fees. The survey results show that schools charge different levels of school fees. The amount varies by grade and the location of the school. Generally, the school fees are lower in primary grades than secondary grades and they are higher in urban schools than in semi-urban and rural schools. The payment of school fees by rural learners is less than 50 percent, while in semi-urban and urban areas it is generally between 50 percent and 100 percent. This may suggest that schools in urban areas are better resourced.

1.3. Provincial departments' responses

Three provincial departments of education were engaged in a self-administered questionnaire/survey that was sent through email. The survey showed some commonalities and divergences among provinces.

In terms of commonalities the responses indicated that:

- Most schools have textbook issue registers. Provincial education departments advise schools to keep textbook asset registers, but they claim that the advice is not always followed.
- There seems to be one principle in place for the book recovery system. If a learner fails to return a textbook, the parent is held liable for the replacement of the book.
- The provincial education departments cited inadequate funding for learner support material as a key problem.

There are stark divergences among the departments in relation to managing learner support material. The education department in the Western Cape does not prescribe textbooks according to the recommended book catalogue. Instead schools select textbooks that best suit their own requirements. However, the province has a book selection committee for assessing grade 12 prescribed literature. The Free State and the Eastern Cape provinces also have book selection committees for approving textbook titles. A catalogue is distributed to all schools with the list of approved titles.

In the Western Cape and the Eastern Cape there is no register indicating the number of unreturned textbooks. The Free State does keep such a register. In the Free State and the Western Cape, requisition forms for textbooks and stationery are sent only to non-section 21 schools, while in the Eastern Cape these forms are sent to both section 21 and non-section 21 schools. In the Western Cape the allocation of learner support material for section 21 and non-section 21 schools is set at R130 in primary schools and R200 in secondary schools. In the Eastern Cape and the Free State the allocation fluctuates each year above the minimum benchmark of R100 per learner (set in the norms and standards for school funding of 1998).

The education department in the Western Cape does not invite tenders for the supply of learner support material. Instead it has a contract with a preferred supplier as per section 38 of the PFMA (Public Finance Management Act, 1999). This contract allows booksellers and publishers to register with the department. Schools identify their supplier from the lists and negotiate a discount on the publisher's price with the respective booksellers. Booksellers deliver textbooks and stationery to schools directly. In the Free State and the Eastern Cape tenders are awarded for the supply of books. The delivery of textbooks and stationery to schools is both the booksellers and publishers' responsibility.

1.4. Conclusion

The FFC baseline survey suggests serious problems associated with the provision of learner support material in schools. However, it must be noted that this survey is based on a very small sample of the total school population. The results therefore may not be representative of the true situation in the provision of LSM in schools. The FFC therefore undertakes to extend this project to include a larger and more representative sample of schools.

[Annexures]

A1 Annexure: Review of Health Conditional Grants – Reports and Stakeholder Views

A1.1. Hospital care according to categories of institutions

- *Level 1* patients require treatment, that may be adequately provided at a district hospital (the first level of referral) by a generalist with access to basic diagnostic and therapeutic facilities. For example, basic X-rays would be administered by a radiographer and a basic range of laboratory tests would be performed by a technician, but there would not normally be an intensive care unit. Theatre facilities would be available but not a specialist anaesthetist. Occasionally such hospitals would have access to specialists in internal medicine, obstetrics-gynaecology, paediatrics, surgery and radiology.

- *Level 2* patients require the use of equipment and facilities found at a regional or secondary hospital (the second level of referral) and the expertise and care associated with any of the following specialists: physicians, general surgeons, orthopaedic surgeons, anaesthetists, paediatricians, obstetrician-gynaecologists, psychiatrists, general radiologists and general pathologists. The hospital would be equipped with an intensive care unit. Level 1 patients can also be treated at a regional hospital.

- *Level 3* patients require the expertise and care associated with the sub-specialties and less common specialties (such as cardiology, endocrinology, oncology, organ transplantation, plastic and trauma surgery, neonatology, sophisticated paediatrics and specialised imaging). Or they require access to scarce, expensive and specialised therapeutic and diagnostic equipment found only at a central or tertiary hospital (the third level of referral). Patients with uncommon ambulatory conditions who attend the hospital for highly specialised outpatient services are also classified as receiving care at this level. Level 1 and level 2 patients can also be treated at a tertiary hospital.

A1.2. Stakeholder views on the funding of health professionals

Submission by the Committee of Deans

The Committee of Deans, incorporating all the country's deans of health science faculties from universities (September 2004), compiled a joint statement on the funding of health professional education:

- The concept of conditional grants and all that it entails is strongly supported.
- It should apply to all health professional disciplines registered with health sciences professional councils.
- Teaching, research and service delivery are inextricably linked and the Department of Health is to provide an accessible, reliable, structured and well functioning service platform on which appropriate and burden of disease driven teaching and research, that will meet the needs of the universities on all levels, can take place.
- Conditional grants should be managed as a full joint responsibility by the universities, the national Department of Education, and the national and provincial departments of Health, based on mutually agreed principles. This relates to the allocation, application and monitoring of grants. The Faculty of Health Sciences Deans should play a pivotal role in this process.
- Allocation principles should be reflected in monitoring principles and be aligned with the respective student populations served by the universities.
- The Health Professionals Training and Development Grant should be ring-fenced and used for its intended purposes only and should be limited to funding recognised qualifications and training recognised by the institutions.
- A specific percentage of applicable conditional grants must be ring fenced and allocated to the National Health Laboratory Service (NHLS).

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- There should be clarification and transparency on the allocation and use of [the] equitable share by the provinces, in relation to conditional grants and within the context of the total budget.
- Allocation, application and monitoring of the conditional grant must be guided and informed by the relevant and applicable legislation, policies and principles. These include: 1) Division of Revenue Act (DORA), 2) Public Finance Management Act (PFMA), 3) National Health Act, 4) Policies, guidelines and requirements of all health professional councils, 5) Modernisation of Tertiary Services (MTS), 6) Policies of the Department of Health, 7) Policies of the Department of Education.

Report from the Western Cape Deans' Committee

A report prepared by the Deans Committee, Health Science Faculties of the Western Cape, (July 2004, pp.4-5), highlights a number of concerns in their province:

- "Between 1995 and 2000 the Department of Health for the province of the Western Cape was downsized by 9,282 health professionals and support personnel (27.9%), and by 3,601 hospital beds (24.4%).
- Inpatient days in hospital declined 502,000 (13.6%) despite increasing population growth (8%) and escalating HIV and Aids prevalence. At Groote Schuur Hospital, for example, services have been considerably reduced at a cost to the health of the population that uses secondary and tertiary public sector health services. For example, cardiac surgical operations in adults have been reduced from 700 per year to fewer than 250 per year; orthopaedics' limited joint procedures to 60 per year in 2003 compared to 350 in 1993; in ophthalmology there has been a 60% reduction in faculty and 50% reduction in beds; waiting periods for various types of cancer surgery vary between 8 weeks and 5 months often leaving patients with incurable cancer; the number of patients being treated for chronic renal failure has been halved – the remainder are turned away with no option of care. The number of full-time faculty members in the UCT Department of Medicine has been reduced from 43 to 27. These trends have begun to threaten access to tertiary services, access to training for postgraduate students, critical mass of the faculty, and the health of the population (not only Western Cape).

The PGWC HD [Provincial Government of the Western Cape Health Department] proposals are not in line with National Treasury funding allocations and rules regarding conditional grants, and their proposals are at total variance with National Department of Health 2010 and 2014 proposals for the modernisation of academic and tertiary services (in the Western Cape and nationally)."

A2 Annexure: Financing Social Welfare Services – Research Results

A2.1. The range of social welfare services

Social welfare services focus on meeting the needs and building on the strengths of individuals, families, communities and other social groups by providing a comprehensive range of services that extends beyond the inherent capacity of individuals and their natural support networks. Social welfare interventions take place at four broad levels: promotion and prevention; rehabilitation; protection; and continuing care services. Below are the type of services applicable to different target groups, their focus and the relevant legislation and policies.

1. Child and family welfare services

Legislative and policy framework

- Child Care Act, 1983 (as amended)
- Children's Bill (currently being debated by Parliament)
- Policy on the Transformation of the Youth and Child Care System, 1997

Services

- child protection services aimed at preventing child abuse, child neglect and child abandonment
- policies and programmes to protect and promote the well-being of children in especially difficult circumstances including, among others, services to children involved in child labour and commercial sexual exploitation of children
- services to children living and working on the streets. These include the registration of shelters for street children and drop-in centres
- services to rape courts
- children affected and infected by HIV/Aids
- after-care services
- early childhood development services, which include the establishment, registration, monitoring and evaluation of services to children under five
- intermediary services
- services to the Family Advocate
- prevention of trafficking in human bodies
- provision of services related to international social services including cross-country adoption.

Children in alternative care

- foster care services
- adoption services
- residential care including the establishment and management of child care facilities such as places of safety, children's homes and shelters for street children.

Family services

- family preservation and family reconstruction services aligned to, among others, the Moral Regeneration Programme
- marriage and family counselling/guidance
- life skills programmes
- parenting skills programmes
- maintenance services in terms of the Maintenance Act, 1998
- family counselling services regarding divorce and mediation services.

2. Probation services

Legislative and policy framework

- Probation Services Act, 1991 (as amended)
- The Child Justice Bill (presently being discussed in Parliament)

Services

- crime prevention services
- restorative justice services such as offender mediation
- assessment services to children and adults in conflict with the law
- pre-sentence services to children and adults
- pre-trail services to children and adults
- family group conferencing
- diversion programmes
- correctional supervision
- community sentencing
- awaiting trial services, for example home-based supervision
- parole services including medical parole
- removal from residence in terms of the Land Rights Act, 1994
- Alcohol Safety School as sentencing option.

Youth development programmes

- youth empowerment services
- capacity development and skills development
- professionalisation of youth development work
- youth volunteerism programmes.

3. Prevention and treatment of substance abuse

Legislative and policy framework

- Prevention and Rehabilitation of Substance Abuse Act, 1992
- Mental Health Act, 1992.

Services

- promotion of awareness, prevention and treatment of drug abuse
- promotion of crime prevention through development and restorative justice
- community awareness programmes
- facilitate the implementation of the Drug Master Plan, 1997
- establishment, registration and monitoring of rehabilitation centres
- provision of after-care services for persons who have a substance abuse addiction
- registration of treatment centres and the monitoring and evaluation of their functioning
- management of government treatment centres.

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4. Women and gender

Legislative and policy framework

- Domestic Violence Act, 1998
- Divorce and Mediation Act, 1987
- Maintenance Act, 1998
- Criminal Procedure Act, 1997.

Services

- prevention of gender-based violence
- victim empowerment programme
- services to perpetrators of domestic violence
- services to victims of domestic violence and gender-based violence
- women's empowerment and development services
- provision and establishment of shelters for abused women and children
- promotion of the prevention and elimination of discrimination against women
- promotion of girl child programmes
- establishment of victim support centres jointly with other departments
- prevention of trafficking in human bodies.

5. Older persons

Legislative and policy framework

- Aged Persons Act, 1968 (as amended)
- Older Persons Bill (presently being debated by Parliament).

Services

- prevention of the abuse of the elderly
- provision of community services to older persons including day care, luncheon clubs and the establishment of service centres
- screening for admissions to residential and other facilities
- residential care, which includes the establishment of frail care residential services for older persons
- promotion of the implementation of international conventions and rules
- awareness and advocacy programmes on the rights of the elderly
- training and capacity building.

6. Persons with disabilities

Legislative framework

- Integrated National Disability Strategy, 1997
- Mental Health Act, 1992.

Services

- inclusion and mainstreaming of persons with disabilities
- prevention of discrimination against persons with disabilities and promotion of rights of persons with disabilities
- early identification of genetic disorders and awareness around the prevention of transmission
- chronic illness, which includes HIV and Aids
- provision of community-based services, which include stimulation centres and protective workshops
- residential care of persons with disabilities
- promotion of awareness around disability issues.

7 Poverty alleviation and community development

Legislative and policy framework

- integrated rural development strategy
- urban renewal strategy.

Services

- skills development and capacity building programmes
- support and monitoring of income generation projects
- institution building
- marketing of products
- women empowerment projects
- food security, food parcels and food production
- social financing
- community development services.

8 HIV and Aids

Legislative and policy framework

- The HIV and Aids and STD Strategic Plan for South Africa 2000–2005
- The Social Development HIV and Aids Strategic Plan 2004–2007 (approved by MinMec, February 2004).

Services

- financial and technical assistance to home community-based care and support services for people infected and affected by HIV/Aids, including the provision of nutritional support and other material and psychosocial support for people living with Aids
- establishment and management of drop-in centres
- provision of psychosocial and other support to orphans and vulnerable children and their families
- training and engaging volunteers and community caregivers to support orphans and vulnerable children (OVCs) and people living with Aids as part of the Expanded Public Works Programme
- establishment and management of co-ordinated action for orphans and vulnerable children at all levels
- establishment and management of child care forums at community levels
- community mobilisation for awareness and preventive and care programmes
- training youth in providing peer counselling and facilitating HIV and Aids awareness programmes
- developing guidelines for the implementation of programmes to reduce the risk of HIV and Aids
- education, care and support programmes for employees and their families within the workplace at all levels
- continuous research, and monitoring and evaluation of all services.

Annexures A2.2. Services and beneficiaries in selected provinces

Free State		
Sub-programmes	**Outputs**	**Beneficiaries**
Prevention and treatment of substance abuse	Intervention and prevention programmes	394 cases of reached clients
Services to older persons	Awareness and prevention programmes on abuse of older persons	5% of elderly population per district
	Implementation of programmes for indepenent living	30 frail people per old age home
	Provision of residential care services	30% of homes from previously disadvantaged communities
Crime prevention and support	Implementation of programmes for children in conflict with the law (Case assessment & diversion)	100% of children with reported criminal cases; 60% of children qualifying for diversion programmes
Services to people with disabilities	Services rendered to protect and promote rights of people with disabilities	Persons with disabilities in day care facilities and protective workshops
Services to children, women and families	Services provided to children in need of care and protection	100 foster parents and 100 places of safety; all registered shelters
	Provision of ECD services	10 000 children
	Provision of awareness and intervention programmes	60% of communities in the province

Gauteng		
Sub-programmes	Outputs	Beneficiaries
Services to older persons	Social work services to vulnerable older persons	27 265 older persons
Crime prevention and support	Probation services	1 000 adults; 7 500 children in conflict with the law
	Home-based programmes	1 000 awaiting-trial children
	Secure care facilities	1 200 children
Services to people with disabilities	Social services	20 000 people with disabilities
	Capacity building sessions on sexuality and the impact of HIV/AIDS on the diasabled	Social workers
Services to children, women and families	Provision of residential care	6 000 children
	New children's homes	500 children
	Foster and kinship care and other community-based options	30 000 children

B Annexure: Summaries of supplementary submissions 2004

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B1 Annexure: Conditional grants

Background

In June 2004, the Parliamentary Select Committee on Finance (PSCoF) submitted a questionnaire to eight national departments administering provincial conditional grants. These were the departments of Education, Sport, Provincial and Local Government, National Treasury, Housing, Health, Agriculture and land Affairs, and Social Development. The objective of the exercise was to determine whether provinces use the conditional grants in a way that is consistent with the provisions of the Division of Revenue Act (DoRA). The committee subsequently submitted the findings of the report to the FFC for a formal comment.

Some of the key findings of the PSCOF report included: (a) low spending patterns on some of the grants, and lack of explanations for the discrepancy; (b) expenditure exceeding the allocated amounts, and lack of explanations for the discrepancy; and (c) inconsistencies in the criteria for allocating grants among provinces.

In responding to the correspondence, the FFC based its commentary on its observations and ongoing research on the use of provincial conditional grants.

Department of Education: HIV and AIDS, Life Skills Programme

The use of the education component of the provincial equitable share (PES) to allocate the HIV and AIDS, Life Skills Programme emerged as a concern for the PSCoF. In this respect, the FFC highlighted its considered view that the current allocation mechanism for the HIV and Aids conditional grant is inappropriate because it does not focus on the target group. Furthermore, the FFC noted that it could be useful to consider consolidating this grant into the equitable share as part of the process of supporting broader provincial ongoing programmes on HIV and Aids as indicated in government's response to the FFC's proposals in Annexure E of the *Budget Review*, 2004.

National Treasury: Provincial Infrastructure Grant

The FFC noted that National Treasury does not trace the spending of this grant, whereas the DoRA requires provinces to report on the provincial infrastructure programmes. However, the commission noted that the monitoring role by National Treasury on this grant needs to be strengthened, including tracing spending on this grant in the context of accountability. This is further informed by the fact that the 2004 DoRA provided for the tabling of quarterly performance reports at the National Council of Provinces.

Department of Sports: Mass Sport and Recreation SA Grant

The findings in the PSCoF report indicated that in some cases, provinces could not submit business plans for the grant as required by the DoRA. The FFC supported the view expressed by the Select Committee, that the implementation on this grant (spending) be monitored, especially because of the forthcoming international sporting events. The FFC further noted that the conditions and specifications of the grant needed to be clarified to enable it to achieve its intended purpose and measurable outputs within historically disadvantaged communities.

Principles in the use of conditional grants

The FFC also highlighted some of the principles in the use of conditional grants. Key to these is that, conditional grants:

- are best used to deal with issues that are beyond provincial boundaries, such as spillovers
- should not be seen as a permanent feature of the system. That is, as soon as the purpose for which a particular grant has been accomplished, the grant should be phased out.

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B2 Annexure: Executive Summary:

Submission on the decentralisation of health care services

The implementation of the National Health Act (2004) marks fundamental changes in the health sector, including the delivery approaches and mechanisms for Environmental Health Services (EHS) and Primary Health Care (PHC) services.

The Act defines Municipal Health Services (MHS) as EHS and assigns EHS to metro and district municipalities. The Act thus makes municipalities accountable for the delivery of EHS.

In relation to PHC, the Act makes provincial governments responsible for the delivery of PHC services. Further, the Act envisages that provinces may delegate the delivery of PHC services to district and metropolitan municipalities through service level agreements and with necessary resources. The framework as envisaged in the Act, however, does not spell out the funding mechanisms for both PHC and EHS services.

The main objectives of this report are twofold. First, it seeks to comment on the framework for the decentralisation of PHC services, and second, to give advice on the appropriate financing mechanisms for PHC services and EHS.

The proposals and recommendations emanating from the report are that:

(a) Delegation rather than assignment appears to be a preferable mechanism at present.
(b) The provincial equitable share mechanism should continue to be used to fund PHC services.
(c) A normative funding approach should be applied to the funding of PHC services to ensure equitable distribution of PHC services across provinces and municipalities. Municipalities would have the option of 'topping up' the amount allocated to their jurisdiction.
(d) The desirability of developing mechanisms to facilitate the transfer of staff between spheres of government should be acted upon as a matter of urgency.
(e) EHS should be added to the list of 'basic services' currently included in the basic component of the local government equitable share (LES) formula.
(f) Government should develop an EHS package, complete with details of the elements of the package.

B3 Annexure: Executive Summary:

Submission on Social Security Grants

Section 220 of the Constitution establishes the Financial and Fiscal Commission (FFC) as an independent and impartial body. The Constitution mandates the FFC to make recommendations on: the vertical division of nationally raised revenue among the three spheres of government; the horizontal division of revenue among provinces and among municipalities; tax legislation; municipal fiscal powers and functions; and provincial and municipal borrowing powers (sections 214, 218, and 228-230).

Based on sections 214 and 222 of the Constitution, Section 9 of the Intergovernmental Fiscal Relations Act of 1997 provides for the FFC to make annual recommendations to Parliament and the provincial legislatures on the vertical and horizontal divisions of revenue. Section 10 of the same Act further requires that government consult the FFC on the annual Division of Revenue Bill and outline its response to the commission's recommendations. In performing its functions the commission considers the Bill of Rights and the factors listed in Section 214 (2) (a-j) of the Constitution. The recommendations contained in this supplementary submission are presented following consultations with the Minister of Finance as required by the Intergovernmental Fiscal Relations Act. An executive summary of the recommendations and proposals mentioned in the foreword are presented here.

Recommendations and proposals for a transitional financing mechanism for social security grants for the period leading up to the establishment of the National Social Security Agency

- The most appropriate method for financing social security payments through the provinces in the interim period leading up to the establishment of the national security agency is to separate the actual average expenditure on social security grants within the social development component. This specifically involves taking the latest actual average share of expenditure of all provinces on social security grants out of the social development component and using this quantum as the basis for social security allocations. The advantages of this method are:
  - An amount will remain for financing welfare services.
  - Provincial budgetary pressures will decrease and room will be created for funds to be spent on the delivery of other services.

- Once the actual average expenditure on social security grants has been determined and separated, any budgetary shortfalls that arise may now be considered by taking into account Section 214 (2) (a-j) of the Constitution. The commission strongly recommends that taking into account Section 214 (2) should include:
  - An audit and review of the current status of all recipients of grants to ensure that only those deserving receive the grant and to create the basis for realistic projections in the growth of beneficiaries.[73]
  - In view of its constitutional obligations to provide social development services, an assessment of the developmental sustainability and economic efficiency of the increasing demand for social security payments, given the limits in macroeconomic and fiscal capacity in raising national revenue.

- With specific reference to institutional, administrative and personnel budgets, the shifting of the social security function must be implemented in a way that does not compromise the delivery of welfare services and other constitutional obligations, especially where these services are complementary to provincial delivery obligations. Furthermore, legislation and regulations for the assignment, budgeting, and delivery of the social security function must be aligned with other relevant legislation.

- Measures should be instituted in order to ensure that:
  - the provincial and national information systems are consistent with each other, so that the link between those benefiting from grants and welfare services is not entirely lost (for example, foster care and care dependency).
  - the integrity and constitutionality of the programme is maintained, and an incentive system that mitigates the tendency for provinces to over- or under-spend is put in place.
  - there is continuity and minimal disruption of existing programmes, and, if possible, a seamless transition from current to interim arrangements and final takeover by the national agency

73. FFC Submission, 2003. 'Towards a Review of the Intergovernmental Fiscal System', p. 88-93.

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- there is accountability, oversight, legal compliance and transparency in programme spending
- allocations are predictable and stable
- national government effectively manages risks.

As an interim payment mechanism, the commission recommends that a specific-purpose agency agreement between national government and provinces is put in place. Such an agreement will engage provinces to disburse social security grants on behalf of national government for the interim period and in line with the principles set out above.

B4 Annexure: Executive Summary:

The Equitable Sharing of Infrastructure Finance using a Capital Grant Scheme Model with Provincial Disabilities

Section 220 of the Constitution establishes the Financial and Fiscal Commission (FFC) as an independent and impartial body. The Constitution mandates the FFC to make recommendations on:

- the vertical division of nationally raised revenue among the three spheres of government;
- the horizontal division of revenue among provinces and among municipalities;
- tax legislation;
- municipal fiscal powers and functions;
- provincial and municipal borrowing powers (sections 214, 218, and 228-230).

Based on sections 214 and 222 of the Constitution, Section 9 of the Intergovernmental Fiscal Relations Act of 1997 provides for the FFC to make annual recommendations to Parliament and the provincial legislatures on the vertical and horizontal divisions of revenue. Section 10 of the same Act further requires that government consult the FFC on the annual Division of Revenue Bill and outline

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its response to the commission's recommendations. In performing its functions the commission considers the Bill of Rights and the factors listed in Section 214 (2) (a-j) of the Constitution. The recommendations contained in this supplementary submission are presented following consultations with the Minister of Finance as required by the Intergovernmental Fiscal Relations Act. An executive summary of the recommendations and proposals mentioned in the foreword are presented here.

Recommendation for the equitable sharing of infrastructure finance using a capital grant scheme model incorporating provincial disability factors

In this 2005/06 supplementary submission, the FFC presents a proposal on the capital grants scheme that can be used to objectively and efficiently allocate capital grants to provinces. In developing this proposal, the Commission took cognisance of the responses to its previous related proposals and in particular followed up on government's responses to the FFC recommendations as presented annually in Annexure E of the Division of Revenue Bill.

The rationale for a provincial capital grants scheme that has been extensively discussed in previous FFC submissions is being foregrounded by recent debates and discussions in the Budget Council and parliamentary finance committees. These have underlined the need for the intergovernmental fiscal system to begin to influence progress in the level and direction of provincial spending on infrastructure backlogs. This has taken on a greater urgency as government is putting more emphasis on using infrastructure investment as a catalyst for economic growth, job creation, delivery of basic services and poverty alleviation.

The purpose of this proposed conditional grant is to allow provinces to build up capital stock to an acceptable norm over time. For the FFC, the infrastructure needed to progressively provide constitutionally mandated basic services is a key determinant of that norm. Rate of investment in the required infrastructure should, however, be balanced against constitutional considerations such as those listed in Section 241(a-j).

In summary, the proposed revised provincial capital grants model tries to achieve the twin goals of raising the overall amount of public capital formation, and progressively eliminating backlogs arising from pre-1994 policies. It does this through a grant formula with two components: a per capita component intended to raise the rate of economic growth in the long run; and a component that raises the relative amount of capital formation in provinces to redress the inequities of the past. The two components also take account of some provincial cost disabilities, which impact on public infrastructure investment and use.

Proposal

- Government should incorporate the backlogs component of the PES formula into the basic component and establish a separate conditional grant to finance provincial capital infrastructure. This should be allocated to provinces using the FFC's proposed provincial capital grants model as presented in the full report submitted in 2004.