

**THE FINANCIAL AND  
FISCAL COMMISSION  
A TEN YEAR REVIEW**



# THE FFC'S MANDATE

To make recommendations on:

- The vertical division of nationally raised revenue among the three spheres of government
- The horizontal division of revenue between the provinces and between municipalities
- Legislation pertaining to the issuing of loan guarantees by the three spheres of government
- Provincial tax legislation
- The allocation of powers and functions among the three spheres of government
- Provincial and municipal borrowing powers

# **FACTORS TO BE CONSIDERED WHEN MAKING RECOMMENDATIONS**

## **Section 214 (a) –(j) of the Constitution**

- The National interest
- National debt and other national obligations
- The needs and interest of the national govt determined by objective criteria
- The need to ensure that provinces and municipalities can provide basic services and perform the functions allocated to them
- The fiscal capacity and efficiency provinces and municipalities

# FACTORS TO BE CONSIDERED WHEN MAKING RECOMMENDATIONS

- The developmental and other needs of provinces, local government and municipalities
- Economic disparities within and among the provinces
- The obligations of the provinces and municipalities in terms of national legislation
- Desirability of stable and predictable allocations of revenue shares
- The need for flexibility in responding to emergencies or other temporary needs and other factors based on similar objective criteria

# The FFC: 1994 TO 1998

## RECOMMENDATIONS

FFC made its first recommendations in 1995, focusing on:

- Defining the best practice for IGFR that are applicable to South Africa
- Determining the size and distribution of the provincial equitable share

# **BEST PRACTICE FOR IGFR THAT ARE APPLICABLE TO SOUTH AFRICA**

- Fiscal autonomy of provincial governments
- Sharing resources for fiscal equity
- Formula-driven rather than discretionary grants
- Transparent processes for setting grants
- Unconditionality of major grants
- Provincial accountability

# **BEST PRACTICE FOR IGFR THAT ARE APPLICABLE TO SOUTH AFRICA**

- Avoidance of bail outs
- Norms and costs as elements of grants
- Macroeconomic management
- Provincial revenue raising
- Local government financing issues e.g. decentralizing local decisions and fostering the independence of local decision-making

## **THE SIZE AND DISTRIBUTION OF THE PROVINCIAL EQUITABLE SHARE**

- It proposed that the national government share of revenue be kept at a zero real growth rate for 1997/98 and three subsequent years
- Recommended that the total provincial allocation divided among the provinces be done through a provincial grants formula

# The FFC: 1994 TO 1998

## RECOMMENDATIONS

- The first provincial grants formula

$$G=B+S+T+m$$

- B is a block grant weighted to ruralness/poverty
- I the institutional component on an equal basis to the provinces
- S the major component of the grant is to enable provinces to provide basic public services to national standards. S had subcomponents focusing on elementary and secondary education, health care and welfare services

# The FFC: 1994 TO 1998 RECOMMENDATIONS

- T is to provide revenue equalisation to be activated as soon as provinces were raising a significant proportion of their own revenues, and
- m is the amount of conditional grants provided from the national equitable share

# CHALLENGES FACED 1994 TO 1998

- Population data was a significant component of the formula
- Population data at that point was suspect and needed to be adjusted
- The formula resulted in significant shifts in resources among the provinces
- FFC recommended a five-year phasing-in of the shifts resulting from the formula

# KEY ACCOMPLISHMENTS

## 1994 TO 1998

- The establishment of an objective and equitable formula for the division of national revenue
- Focussed on provincial and local government revenues and borrowing and the equitable division of national revenues
- Continuous refinement of the initial recommendations
- *The FFC ... has contributed significantly to the development of the intergovernmental system. Its recommendations for the division of resources between the three spheres of government form the basis of the current allocations” (1998 Budget Review)*

# The FFC: 1994 TO 1998

## OUTSTANDING ISSUES

- Despite the acknowledged contributions of the FFC:
  - National Treasury used a different provincial grants formula which approximated FFC results
  - FFC recommendations with respect to provincial revenue raising powers were not implemented
  - Inadequacies in demographic and other data remained
  - Backlogs not being addressed systematically
  - Vertical division addressed on an ad hoc basis
  - Formula for establishment and division of local government equitable share developed in principle only

# The FFC: 1999 TO 2004

## CONSOLIDATION AND REVITALISATION

- FFC faced a new environment
  - Stronger national and provincial governments
  - New institutions (e. g. Budget Council and Forum)
  - New legislation (e.g. Intergovernmental Fiscal Relations Act; Financial Administration Act)
  - Staff redeployment, recruiting and training

# The FFC: 1999 TO 2004

## PROJECT 2001 AND THE COSTED NORMS APPROACH

- Proposed primarily as method of dealing with the division of the provincial equitable share with a focus on education, health and welfare
- *“The Commission believes that the costed norms approach ... will give substance to the recent developments in public finance management..., particularly with respect to facilitating the development of an outcomes-based and cost-sensitive budgeting regime.”* FFC: May 2000 Recommendations to Parliament

# **COSTED NORMS APPROACH: KEY ELEMENTS**

## **The basis of the approach**

- Bill of Rights requires that certain basic services be provided, among which are health, welfare and education
- Some basic services are provided for concurrently by national and provincial government
- The minimum level of services are determined nationally
- Basic services are to be finance by an Act of Parliament, such that “revenue raised nationally among the national, provincial and local spheres of government” is divided equitably

# THE ESSENCE OF THE COSTED NORMS APPROACH

- The mandated basic level of service should be determined nationally and should be expressed in terms of the norms and standards of each program
- Against the norms and standards established, fiscal requirements should be determined by taking account of the factors affecting the province
- The total cost of providing basic education, social services and primary health care should be calculated for each province
- Full implementation requires a considerable amount of information both public sector performance and costs

# ADVANTAGES OF THE CONSTED NORMS APPROACH

- Promotes efficiency by encouraging governments to make the most efficient resource allocation choices possible
- Provides an incentive to provincial governments to achieve output goals
- Increases transparency
- Increases incentives
- Increases incentives to gather data on government performance and costs
- Will contribute to determining appropriate fiscal policy
- Limits the fungibility of grants

# KEY CHALLENGES FOR COSTED NORMS

- Complexities in the interpretation of national norms and standards, and in determining actual costs
- Setting norms and standards in a essentially a political process and thus responds to political pressures
- Horizontal and vertical divisions of revenue must reconcile the need to provide adequate resources to provinces

# RECOGNISING THESE CHALLENGES

FFC recommended:

- Alternative national benchmarks be designed which provide options from which national government could choose
- Offering a menu of alternative realisation rates and policy parameters facilitates the selection of national norms and standards that can be accommodated within the fiscal policy framework

# The FFC: 1999 TO 2004

## 2001 AND 2002 REPORTS: ROADMAP FOR LOCAL GOVERNMENT FINANCE

- Work toward a framework to include:
  - A formula for the local government equitable share
  - The identification of municipal basic services
  - The development of framework for the financing of municipal services
  - Own-revenue (including borrowing) for municipalities
  - Infrastructure financing issues

# The FFC: 1999 TO 2004

## 2001 AND 2002 REPORTS: OTHER ISSUES

- FFC recommendations made included those with respect to:
  - The Provincial Tax Regulation Bill : recommended a list of taxes that provinces should be allowed to impose
  - Funding for early childhood development: status quo (conditional grants and direct grants-in-aid) until a funding formula is developed
  - Funding for HIV/AIDS: use of conditional grant to fund programs, and the development of a suitable data and information base

# The FFC: 1999 TO 2004

## 2001 AND 2002 REPORTS: OTHER ISSUES

- Guidelines for the evaluation of the Comprehensive Social Security Review Report
- Progressive realisation of constitutionally mandated basic services
- Disaster management: recommended that central funding mechanisms for disaster management should be introduced to ensure that budget frameworks and the delivery of constitutionally mandated basic services are not compromised

# **The FFC: 1999 TO 2004**

## **2003 AND 2004 REPORTS:REVIEW OF INTERGOVERNMENTAL FINANCE**

- Focus on the provision of constitutionally mandated basic services
- Proposed that a comprehensive poverty alleviation package be designed
- Reaffirmed the role of provinces as the primary provider of many basic services
- Supported the establishment of a National Social Security Agency to provide welfare cash grants from the national equitable share
- Recommended rationalisation of provision of housing and water services

# **The FFC: 1999 TO 2004**

## **2003 AND 2004 REPORTS: DEVELOPMENT OF POLICY INDICATORS**

- Advocated for the development of clear norms and standards to guide service delivery
- Proposed specific indicators for policy outcomes, delivery outputs and linking those to financial inputs
- Developed and presented data with respect to the measurement of the progressive realisation of constitutionally mandated basic services

# The FFC: 1999 TO 2004

## SUMMARY AND CONCLUSIONS

- During this period, the FFC had:
  - Advanced the work on the division of the provincial equitable share
  - Developed and began the steps toward implementation of the “road map” for local government finance
  - Induced growing acceptance of the costed norms or a similar approach to work in tandem with traditional budgetary procedures
  - Provided a growing body of work which measured outcomes and outputs against financial resources, in particular as related to the progressive realisation of constitutionally mandated basic services

# The FFC: 1999 TO 2004

## SUMMARY AND CONCLUSIONS

- Work remained incomplete:
  - Local governments' grant formula was still being structured
  - Capital and backlog issues were just beginning to be addressed systematically
  - New needs with respect to data availability and reliability had been uncovered
  - Technical capacity constraints remained

# THE DECADE AHEAD

## CHALLENGES AND CONSTRAINTS

- Provincial fiscal issues include:
  - The evolution and maintenance of the provincial equitable share formula, perhaps incorporating new elements for capital, infrastructure and backlogs and a fuller range of provincially delivered services
  - Continuing to press for meaningful revenue-raising authority
  - Need for more complete and accurate financial and other data to monitor outcomes and outputs against financial inputs
  - The appropriate use of conditional grants

# THE DECADE AHEAD

## CHALLENGES AND CONSTRAINTS

- Key challenges in building a local government equitable share formula include:
  - Keeping pace with the placement and distribution of responsibilities of district and local governments
  - Obtaining demographic and fiscal data of sufficient quality, detail and pertinence
  - Need to develop objective criteria for measuring fiscal needs of local governments
  - Giving effect to policy decisions with respect to such matters as the provision of free basic

**THE END**

**THANK YOU**

