



For an Equitable Sharing  
of National Revenue



# POLICY BRIEF

## **Improving Service Delivery through the Intergovernmental System**



## **The Financial and Fiscal Commission**

The Commission is a body that makes recommendations and gives advice to Organs of State on financial and fiscal matters. As an institution created in the Constitution, it is an independent, juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) (as amended) and relevant legislative prescripts and may perform its functions on its own initiative or on request of an Organ of State.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between the national, provincial and local spheres of government. This relates to the equitable division of government revenue among the three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly both to Parliament and the Provincial Legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February.

The Commission consists of women and men appointed by the President: the Chairperson and Deputy Chairperson; three representatives of provinces; two representatives of organised local government; and two other persons. The Commission pledges its commitment to the betterment of South Africa and South African's in the execution of its duties.



# Policy Brief

## *Improving Service Delivery through the Intergovernmental System*

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01 February 2021

### **Executive Summary**

In South Africa, the intergovernmental fiscal relations (IGFR) system is important for facilitating the delivery of social services, as the national and provincial governments share responsibility for delivering health, education and social development services. This sharing of responsibilities is fraught with institutional governance, funding and accountability challenges, including vagueness around roles and responsibilities for concurrent functions, ineffective intergovernmental forums, and tensions between the two spheres of government. The Commission's research found that what is missing is a framework that clarifies the institutional and funding arrangements and responsibilities for concurrent social services, and a mechanism to link the social services outputs to the resources allocated to provinces. The Commission recommends that national departments revise legislation, to clarify roles and responsibilities for concurrent functions, and reintroduce outcomes-based performance agreements for health and education; provincial departments include additional data and measures to improve their performance reporting on health and education; national assessments for Grades 3, 6, and 9 be restored; the Department of Health and Stats SA measure causes of mortality and morbidity at provincial and ideally municipal level; and National Treasury incorporate aspects of costed norms into the provincial equitable share formula (PES).

## Background

In South Africa, the design of intergovernmental fiscal relations (IGFR) plays a crucial role in facilitating the delivery of social services, which are an important part of developmental interventions for eradicating poverty and reducing inequality and unemployment. Social services are a concurrent (shared) function of national and provincial governments. National government is responsible for formulating policies and regulatory frameworks, setting national norms and standards, providing the requisite funding and overseeing implementation, while provinces are responsible for implementation in accordance with national frameworks. Such an arrangement requires a certain level of cooperation and understanding between the government spheres.

Intergovernmental relations are based on the principles of cooperative and consultative governance, and the legislative framework assumes that all the processes and activities required to deliver on shared functions will be undertaken. However, in practice, several factors contribute to national and provincial governments not executing their respective roles in relation to social services. This leads to contestation about policy relevance, adequacy of funding, capacity to deliver and accountability. There are structural tensions between the spending/delivery agents (the provinces) and the suppliers of funds (national government) relating to the pace and quality of service delivery, and the need for value for money given the limited resources available. National government is of the view that provinces are underperforming, while provinces contend that the resources allocated are not adequate to meet the policy goals and the needs.

Therefore, the Financial and Fiscal Commission (the Commission) undertook research into the IGFR arrangements for social services in South Africa, with an emphasis on the governance, delivery and funding challenges within the health and education sectors, and made recommendations on improving IGFR for social services.

## Research Findings

The research identified four main challenges that affect the effective delivery of social services, as illustrated by the education and health sectors.

1. **Incomplete national and provincial legislative framework.** It is unclear whether concurrent functions are a voluntary (own) or a mandatory (delegated) responsibility for provinces, and definitive criteria for measuring provincial capacity to deliver services are lacking. This results in disputes when delivering concurrent services, especially when undertaking Section 100 interventions or determining the composition of fiscal transfers given to provinces.

2. **Ability of intergovernmental relations forums.**<sup>1</sup> These forums are meant to foster coordination and cooperative governance. However, their ability to align policy and budgets for concurrent functions is limited because of the conventional line-function culture of planning, budgeting and implementation, which rewards individual performance. These forums and committees also have specific gaps, such as information asymmetry, unilateralism and competition, and largely respond to an imperfect process.
3. **A lack of standard costing methodology.** There is no standard methodology for estimating the expenditure needs of provinces based on their assigned education and health responsibilities. This fuels perceptions of underfunding and passing of the buck between provinces and national government in relation to delivery performance.
4. **Legal challenges.** A combination of inadequate delivery norms and standards, provincial delivery inertia, variations and non-adherence to set national norms and standards result in court battles, which have serious implications for the budget.

The Commission's research also highlighted the need for **output and outcome measures for social services**. Credible and holistic data on social services delivery is crucial for clear accountability and the prevention of unnecessary battles for the control of resources and implementation programmes, as well as unsystematic takeover of functions. Without such data, government is unable to evaluate whether it is progressively realising socio-economic rights as required by the Constitution.

Lastly, the Commission's research found that, thanks to improved provincial financial and non-financial reporting, **a costed norms approach is possible and necessary**. Incorporating aspects of costed norms into the provincial equitable share (PES) would improve the distribution of allocations. When the Commission first introduced this approach in 2001, many of the social services variables needed to link outputs to the resources allocated to provinces were not available. However, this is no longer the case. Data is available to differentiate the population based on gender and poverty profiles, which are factors that affect service demand and the costs of providing such services. This would allow (for example) a higher weighting to be applied for vulnerable groups in the education component of the PES.

## Conclusion and Recommendations

The IGFR challenges that affect the delivery of social services are long-standing. They result in intergovernmental tensions, whereby national government funds and oversees the affairs of provinces without the necessary enabling information, while provinces appear to act in their own interest without following the national norms and standards. Addressing these challenges would improve the delivery of concurrent social services in the education and health sectors.

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<sup>1</sup> These include Heads of Departments (HOD) forums, the Technical Committee on Finance, Joint MINMECs, Presidential Coordinating Committee (PCC), extended cabinet and budget council.

The Commission recommends that:

- The national departments responsible for concurrent functions revise their enabling or subordinate legislations, to ensure that the roles and responsibilities for activities within a function are clearly detailed and linked to the accountability framework.
- The national basic education and health departments reintroduce outcomes-based performance agreements, to clarify accountability lines between national and provincial parties.
- Provincial education departments improve their performance reporting, by including data on early childhood development (ECD) and special needs learners, youth vocational training, and adult basic education within the existing reporting framework, and measuring administrator-to-learner and computer-to-learner efficiency ratios.
- The annual national assessments for Grades 6, 3 and 9, be restored and bolstered with new measures of (for example) digital literacy.
- Provincial health departments improve their performance reporting through measuring progress against targets on clinic leadership and management, health information material disseminated, diagnostic tests and medications issued, municipal utility provision in clinics and district hospitals and computer and medical equipment secured.
- The Department of Health and Stats SA conduct regular surveys and measure the causes of mortality and morbidity for each province and ideally municipal council.
- The National Treasury incorporate certain aspects of the costed norms approach into the PES formula that would acknowledge and explicitly fund provinces that have greater needs for education and health services given their socio-demographic profiles.
- The departments of basic education and health urgently cost current education and health care norms. These cost estimates should initially be used to determine provincial expenditure performance and, in the long term, be considered for incorporation into the PES formula.

***Enquiries: Eddie Rakabe (Eddie@ffc.co.za)/info@ffc.co.za***

Financial and Fiscal Commission

Montrose Place (2nd Floor), Bekker Street,

Waterfall Park, Vorna Valley, Midrand,

Private Bag X69, Halfway House 1685

[www.ffc.co.za](http://www.ffc.co.za)

Midrand Office Telephone: +27 11 207 2300

Cape Town Office Telephone: +27 21 487 3780