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Determining the limits of the possible: A closer look at the 2010 MTBPS

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Paper 8

Determining the limits of the possible: A closer look at the 2010 MTBPS

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1. Introduction

One of the main purposes of the Medium Term Budget Policy Statement (MTBPS) is to set out the government's assumptions on the medium-term outlook of the economy and to align policy and allocations with availability of resources for the next three years. In the wake of recently enacted budget amendment legislation, the MTBPS also serves as a key touchstone in ongoing economic policy debates between the legislature and the executive.

As the Minister of Finance, Pravin Gordhan, noted in his MTBPS speech on 27 October 2010, South Africa scored first out of 94 countries in the International Budget Partnership's survey of budget transparency. This is a commendable achievement and results from years of commitment to the reform of the budget system towards greater transparency and greater potential for accountability and participation.

One result of such budget transparency is, of course, that budget policy becomes less likely to surprise and to veer off in an unanticipated direction. Indeed, if you wanted to get a rough sense of the 2010 MTBPS, the 2010 Budget earlier this year would have been a good starting point. This is in one sense an indicator of a positive trend, of continuity, predictability and, to the extent that South African authorities are able to have an effect on this, of stability. On the other hand, this continuity will be frustrating to those who call for a more significant shift in the economic policy model.

The global financial crisis and its impact on the South African economy represented a unique budget challenge from February 2009 onward, and it required budget policy to consider a range of possible trajectories. Similarly, the impact of the 1.8% contraction of the economy in 2009 on the labour market, with about a million jobs lost, has rightly placed job-creation at the centre of the debate. It has also, however, created renewed tensions between those who would argue for a better, more resolute implementation of the economic model we've had since the mid-1990s, and those, such as Cosatu, who have proposed an overhaul of, amongst other things, the macro-economic model in its recently released *A Growth Path Towards Full Employment*. Rarely has there been so much agreement between the objectives that matter and so much discord about how to achieve them.

The 2010 MTBPS arrived in the wake of a fractious and difficult period for government, the ANC and its alliance partners. This was a period made all the more difficult since it coincided with an economic recession. It can be argued that the Zuma administration and - by extension - the state, is under increasing claims from competing socio-economic and political interests, on the one hand, and from citizens, on the other, who have felt the brunt of the recession. South Africans, spurred on by the more openly contested post-Polokwane environment, are increasing the pressure on government to deliver. Moreover, this clamour for change has been championed by the tripartite alliance partners.

One risk of the ongoing conflict over the framework for South Africa's development is that it can produce a degree of inertia within the state as it becomes the key battleground for competing elites. Where government dithers for the sake of political expediency, ordinary citizens become further marginalised from serious debates over the future role of the South African state. This effectively renders them passive recipients of delivery rather than key participants in the democratic driving of socio-economic transformation.

Though the unemployment crisis and the necessity of job creation underpin both Cosatu's and government's new growth path strategies, they seek to achieve job-creating economic growth in significantly different ways. While Cosatu continues to argue for dramatic shifts in macro-economic policy, government's emphasis is clearly more on improving the efficiencies of the state and the functioning of the state machinery in order to get more value for the resources available in the current framework. The 2010 MTBPS is no exception to this state of affairs.

Aside from the inclusion of a bit more detail on the introduction of National Health Insurance, this MTBPS is unlikely to find much favour with the alliance partners. The 2010 MTBPS is a cautious explanation of where the economy and fiscus now are, where they are likely to be going and what the scope for intervention is. Although some reasons for cheer are noted - such as a moderate recovery in household consumption - assumptions concerning the recovery of GDP growth remain moderate. Thus, real GDP growth for the 2010 calendar year is adjusted from the 2.3% forecast of the 2010 Budget to 3%, while the 2010/11 fiscal year forecast is adjusted from 2.9% to 3.5%. What is more significant - particularly in relation to the need to create more jobs - is that even by 2013/14 real GDP growth is not expected to exceed 5%.

Tax revenue estimates have been adjusted upward for 2010/11 by R30 billion, though tax revenue as a share of GDP is not expected to attain pre-recession levels anywhere in the near future. Crucially, however, the MTBPS proposes very little adjustment to expenditure amounts over the medium-term. What this means, then, is that better-than-anticipated tax revenue will be used in the main to bring budget deficits down to pre-crisis levels faster than anticipated in February 2010. The adjusted estimate of the 2010/11 deficit, for example, has been lowered from 6.2% of GDP to 5.3%, for 2011/12 from 5% to 4.6% and for 2012/13 from 4.1% to 3.9%.

The 2010 MTBPS presents a clear commitment to “normalisation” of public finances and a response to the question governments around the world are grappling with, concerning the timing of their imposition of “austerity” measures. Of course, what makes smaller deficits possible when tax revenue remains less than buoyant is expenditure moderation and, indeed, the real increase in budget spending over this period is less than the anticipated real GDP growth as the economy recovers. In other words, consolidated government expenditure is set to *decline* mildly as a share of GDP over this coming medium-term, from an expected 33.7% in 2010/11 to about 32.3% in 2013/14. This is still higher, however, than the government’s pre-recession share of the economy, which topped out at 30.7% in 2008/09, before leaping to 33.9% in the first recession budget of 2009/10.

Given the social challenges we face and the only moderate expansion of available budget resources, improved accountability and participation are more crucial than ever over the next few years, because these are the necessary conditions for ensuring efficiency and effectiveness in public resource use. The fairly detailed discussion in the minister’s speech of enhanced supply-chain management and areas where savings and more effective organisation of public services are possible, are indicative of this emphasis.

The MTBPS did not contain much more detail on the so-called “new growth path” approved by cabinet, which was unveiled the day before and which is intended to create five million jobs over the next ten years, thus reducing the unemployment rate from about 25% to about 15%. This is not surprising, given that the detail still needs to be worked out and other stakeholders consulted. But it is also hard to escape the conclusion that nothing particularly new is being proposed in this framework, aside perhaps from a greater emphasis on the largely untested potential of the “green economy” to create jobs. The emphasis in both the unveiling of the new growth path and the MTBPS on the importance of *partnerships* is welcome, but a lot will depend on how this plays out.

Unlike the budgets and MTBPSs of recent years, the minister did not have much scope for introducing or expanding measures which alleviate poverty in a fairly direct manner, such as the social grants. The child support grant now includes children up to the age of 18, and there is little likelihood of other forms of direct income support being introduced. Social protection expenditure over the medium-term is anticipated to increase by a nominal average annual rate of 9.1%, more than allocations to health or education.

Nor, for that matter, have revenue overruns been so spectacular that tax cuts could be considered. Tax increases, on the other hand, can also not be considered in an economic environment where households and firms are just beginning to spend and accumulate inventories again.

The 2010 MTBPS, then, strikes a cautious fiscal stance that will antagonise some and retains a set of expenditure priorities that are in line with preceding budgets. It leaves much of the debate and discussion on how to transform South African society and its economy to the coming months and years. In setting out indicative assumptions and sketching out possible trajectories it is, of course, fulfilling its purpose as a medium-term statement of budget policy. But the debates will have to take place, and South Africans will have to find ways to develop and deepen a sense of collective mission if the budget's resources are to have a transformative impact.

In the rest of this document we will first look more closely at fiscal policy and the economy as articulated in the 2010 MTBPS and in preceding budgets. Though space does not permit us to look in detail at all the expenditure priorities of South Africa budget policy, we subsequently focus on health and local government as two sectors that currently are characterised by agreement on the need for reform but there is ongoing debate on how to achieve this.

2. Fiscal policy and the economy

In the 2009 and 2010 budgets, and in the 2009 MTBPS, the drafters of the budget were confronted with a particularly unfavourable and uncertain set of economic circumstances stemming from the global recession of 2008 and 2009. Though it was clear from the end of 2008 onward that the South African economy would go into recession like many other economies, the depth and duration of this recession were less clear. What was also unclear was the scope of the impact on tax revenue and, consequently, on available resources before borrowing.

South African budget policy in response to the recession consisted, broadly, of maintaining pre-recession public expenditure commitments in the face of likely declining tax revenue. Of necessity, then, the budget deficit and consequent borrowing requirements were permitted to increase. In other words, budget policy became fairly counter-cyclical through the use mainly of the automatic stabiliser of tax revenue fluctuation.

Interestingly, the 2009 budget, though it was tabled during the second quarter of three quarters of output contraction, did not adequately anticipate the overall contraction of the economy of 1.8% which occurred in 2009. Indeed, both the forecasts of National Treasury and private institutions at the time were that the economy would grow sluggishly but positively in 2009. The 2009 *Budget Review* estimate for real GDP growth in 2009/10, for example, was 1.4%.

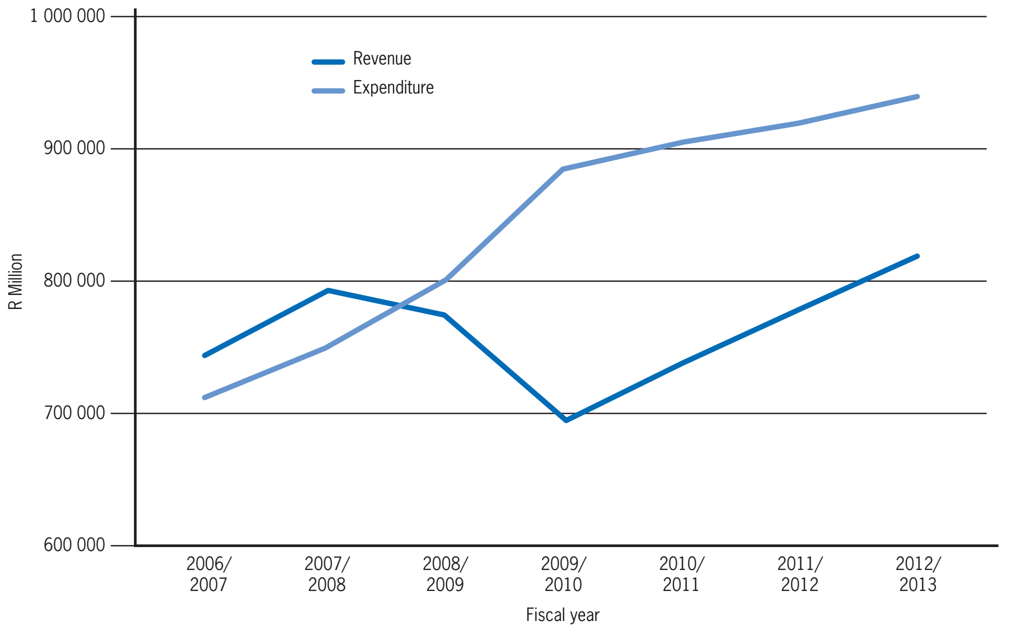
Given this assumption, the 2009 budget estimated tax revenue for the 2009/10 fiscal year at R 659.3 billion, consolidated expenditure of R 834.3 billion, and a deficit of 4.2%. In the event, tax revenue for 2009/10 ended up being about R60 billion less than anticipated. With expenditure staying well-aligned with allocations, the deficit outcome was in fact 6.7%. It is fair to say that the 2009/10 budget represented by far the largest divergence between growth and tax assumptions and actual outcomes in recent years.[1]

The 2009 MTBPS, tabled in the middle of the 2009/10 fiscal year, was significantly less optimistic in its assumptions about key fiscal and economic parameters, and included a revised growth forecast for 2009/10 of a decrease in GDP of 1.6 %.The 2009 MTBPS also assumed a slower recovery in growth and tax revenue over the period 2010 to 2013.

Given the shift signalled in the 2009 MTBPS to a bleaker outlook, the 2010 budget did not need to propose significant adjustments to the muted growth and revenue expectation for the medium-term. Figure 1 represents real (2010/11 rands) consolidated expenditure and revenue outcomes and medium-term estimates for recent fiscal years using budget 2010 information.

[1] All budget figures used in this document come from the various *Budget Reviews* and *Medium Term Budget Policy Statements* unless otherwise indicated; calculations and errors are our own.

Figure 1: Consolidated revenue and expenditure (2006/07 – 2012/13): 2010 *Budget Review*



What is clear is the sharp increase in consolidated expenditure of 2009/10, and the equally sharp decline in revenue, as well as the degree of "plateauing" of the consolidated budget of 2010/11 and what was proposed for the following years, with proposed real increases averaging around 2% over the medium-term. The figure also shows the very gradual reduction of the deficit over the period, which was still proposed to be about 4% for 2012/13. This gradual reduction of the deficit assumes, incidentally, a real rate of recovery of revenue of 5% to 6% over the medium-term; that is, a faster revenue recovery rate than anticipated real GDP growth.

The 2010 MTBPS, then, makes slight upward adjustments to the real GDP outlook for the medium-term, slight upward adjustments of tax revenue and a slight *downward* adjustment of nominal expenditure. Table 1 compares the estimates and forecasts for the two documents, using real 2010/11 rands.

Table 1: Comparing 2010 Budget and 2010 MTBPS numbers

R billion	2010/11	2011/2012	2012/2013	2013/2014
2010 Budget real GDP growth	2.9%	3.4%	3.6%	NA
2010 MTBPS real GDP growth	3.5%	3.6%	4.2%	4.5%
2010 Budget tax revenue	R647.9	R721.5	R818.3	
2010 MTBPS tax revenue	R679.2	R751.4	R840.1	R943.8
2010 Budget expenditure	R907.1	R977.4	R1 058.6	
2010 MTBPS expenditure	R904.1	R977.2	R1 059.1	R1 154.2

The slight upward growth adjustment seems advised, though the rate of recovery of the global economy remains uncertain. In the first two quarters of 2010 (that is January to end June) the economy grew at seasonally adjusted annualised rates of 4.6% and 3.2% respectively. In these quarters household consumption expenditure also improved considerable after the 3.1% decrease of 2009. However, the downturn in growth in the second quarter is one factor which suggests that an accelerated recovery is unlikely. An additional factor which argues against a stronger recovery than anticipated in the 2010 Budget is the impact of the stronger than expected rand on South African export competitiveness.

As noted already, the main use for the anticipated tax revenue overruns of 2010/11 and the following two years will be to reduce the borrowing requirement. Table 2 compares the budget balance as share of GDP for the 2010 budget and the 2010 MTBPS.

Table 2: Deficit as share of GDP in the 2010 Budget and 2010 MTBPS

	2010/11	2011/12	2012/13	2013/14
2010 Budget	6.2%	5%	4.1%	NA
2010 MTBPS	5.3%	4.6%	3.9%	3.2%

Expenditure, in other words, remains very much aligned with the ‘plateauing’ which represented in figure 1. Indeed, over the medium-term real expenditure growth is proposed of about 3.1% from 2010/11 to 2011/12 and 2011/12 to 2012/13, and of about 3.5% from 2012/13 to 2013/14.

Since these growth rates are slightly slower than the realistically anticipated real GDP growth rate, expenditure as a share of GDP will decline from the record high of about 33.9% in 2009/10 to 32.3% in 2013/14. With only small increases in total spending, on the one hand, and moderately rising debt service costs, as well as high wage settlements and increased uptake of social grants as a result of both the recession and the increase in the eligibility age of the child-support grant in the other, it is clear that budgetary reprioritisation will have to take place. The 2010 MTBPS refers in this regard to the need to "assess the trade-off between consumption expenditure and investments that support higher growth and improved front-line service delivery". [2] At present, given the commitment to faster deficit reduction, it would appear that the main casualty over the medium-term will be government capital expenditure, which is set to decline slightly from 7.2% of GDP in 2009/10 to 6.7% by 2013/14. The MTBPS notes in this regard also the continued under spending by government on capital budgets, with about R12.4 billion under spent on capital budgets by general government, of which more than R10 billion occurred in the local sphere.

Although tax revenue performed slightly better in 2010/11 than anticipated, and is set to continue doing so over the medium-term, the actual recovery of tax revenue levels to pre-recession levels will take considerable time. The overruns of this fiscal year largely reflect a highly cautious 2010 Budget, which did not make the mistake of assuming things would turn out much better than, in fact, they did.

Taxes on goods and services are the major drivers of revenue growth in 2010/11, with 40.8% or R94.1 billion of the annual estimate already collected at the end of month five. There is an obvious glut in the outturn for taxes on income, profits and capital gains in the month of June and signs of above-normal recoveries in August. June's figures could be attributed to world-cup related activities, while August's returns are more to do with increased compliance during the 2010 tax season. Both streams are expected to adjust to moderate levels over the medium term.

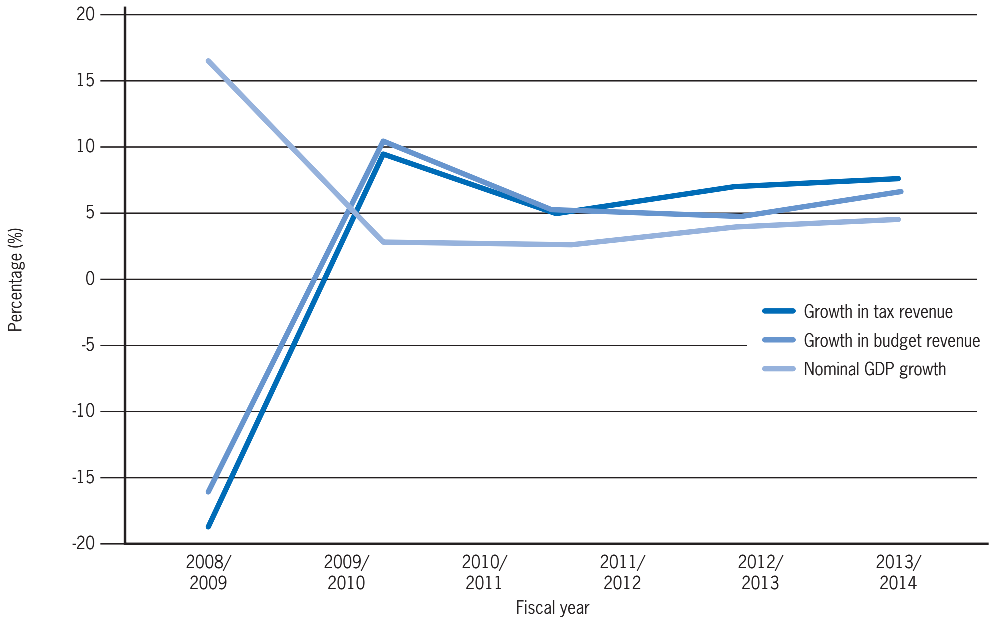
Taxes on international trade also show promising recovery at the end of the first five months of 2010/11, with 45% percent or R9.4 billion of the budget estimate already collected. Compared to 2009/10 revenue performance, there is reason for the optimism and, therefore, upwards revision of the 2010/11 revenue estimates. First, increases are easily recognisable because they are starting from a lower base; secondly, comparing the

[2] *2010 MTBPS*, National Treasury, page 34.

month five outturn for 2010/11, it can be shown that tax recovery is faster than it was in 2009/10. Taxes on goods and services, for instance, were already at 40.8% compared to 34.1% of the budget estimate at the same time last year. Looking at the overall revenue developments for 2006/07 and 2007/08, where five-month collections stood at 35.5 and 35.8% respectively, one can conclude that this is not just a spurt but real over-recoveries.

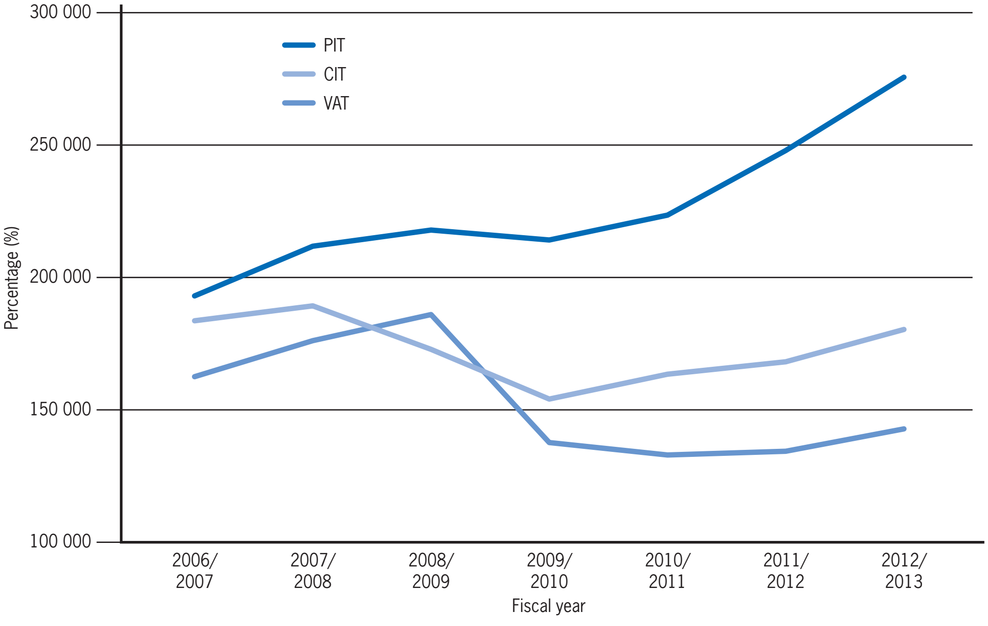
The upward adjustment of the revenue budget estimate is aligned with overall changes in economic performance. The medium-term estimates of revenue growth suggest that recovery will be faster than anticipated in February.

Figure 2: Revenue and nominal GDP 2009/10 – 2013/14



However, notwithstanding these improvements, the fundamental issue remains a slow recovery of tax revenue in the absolute sense. The 2010 MTBPS does not provide medium-term estimates for particular taxes. Figure 3 compares Budget 2010 outcomes and estimates for the three main sources of tax revenue (personal income tax, corporate income tax and value-added tax) to give a sense of the longer-term recovery rates of tax revenue.

Figure 3: Tax revenue outcomes and estimates (2006/07 – 2012/13)



It is clear that the decline in VAT revenue preceded that of the other two taxes, and also that revenue from the corporate income tax declined particularly rapidly in the recessionary environment. What is also strongly illustrated here is the anticipated very slow recovery of CIT revenue. The corporate income tax attained its peak value in 2008/09, when it generated revenue of about R186 billion, in 2010/11 rands, or about 7.1% of GDP. There is no anticipation that CIT revenue will return to this value, or even its 2006/07 value, in the near future, with its sluggish recovery suggested by the flattish line. VAT too is expected to improve only slowly, returning and slightly exceeding in 2012/13 the level of 2008/09, but still less than the peak of 2007/08. Clearly much will depend on the extent to which the personal income tax is able to sustain the buoyant growth anticipated here.

The preceding discussion has focused on what might broadly be called the fiscal position of government in the next few years. It is likely to be a period defined by the need to use existing resources better, rather than a period where the budget will continue to add to the allocations of departments and other spending entities. However, it is not only a matter of ensuring greater operational efficiency, but also of ensuring that particular allocations to departments are spent on the correct programme and sub-programme priorities. Having sketched out some aspects of the fiscal position, we look in the next two sections at two areas where the tension between resource availability and resource demand, and the need for policy as well as institutional reform, appear particularly urgent, namely health and local government.

3. The 2010 MTBPS and health reform

At some point in their lives, most South Africans will require medical attention. Issues of health are cross-cutting, affecting everyone in society regardless of race or affluence. Despite fairly high levels of health care expenditure, South African health indicators remain poor.

According to the 2010 *Budget Review*, South Africa spends R4 582 (US$666.85[3]) per capita on health care which is balanced fairly evenly between the public (R2 008) and private sectors (R2 447)[4]. Yet despite this level of health care expenditure, health indicators remain disappointing. South Africa has the second highest rate of infant mortality, the highest maternal mortality and the lowest life expectancy of five other countries (Brazil, Botswana, Costa Rica, Mexico and Namibia) with similar per capita GDPs. Furthermore, Sub-Saharan Africa has the lowest decline in under-five mortality rate in the world and South Africa averaged even less than the Sub-Saharan average of 1.8% between 1990-2009[5]. In a year haunted by hospital infant deaths largely related to curable hospital-acquired infections, something needs to be done, and quickly.

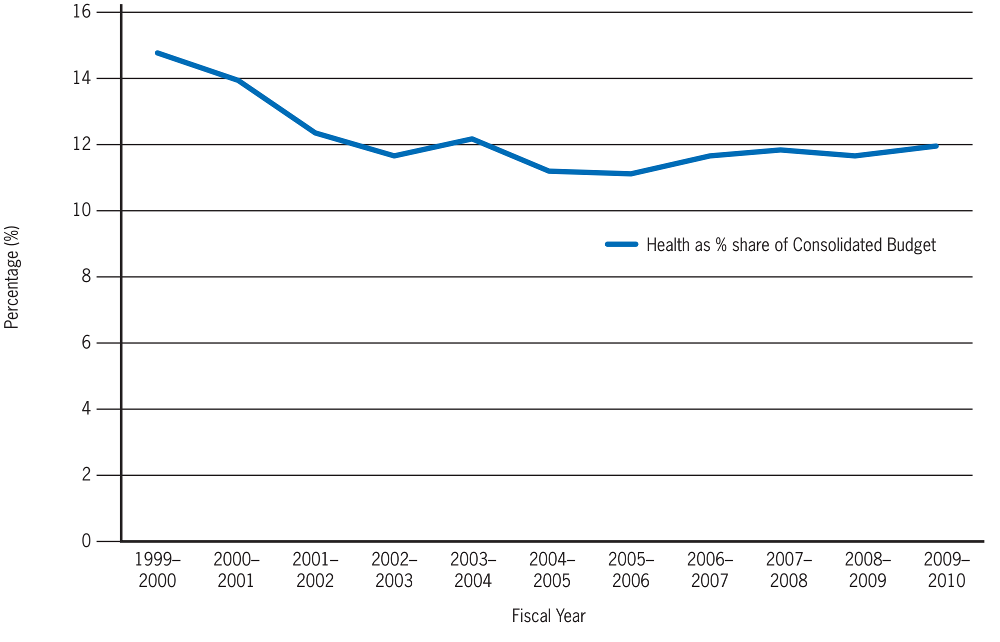
The biggest health spending programme in South Africa, the district health service, is allocated at a provincial level and forecast to remain the largest programme within the health sector. Yet regardless of real increases to finances and rising numbers of health personal, key indicators are deteriorating[6] . Disappointing health indicators can be attributed to a number of causes. Three are primary: lack of money, poor management and external factors. While the third remains a reality in South Africa, it would be too easy and convenient to attribute the majority of health problems in the public sector to external factors such as worsening social conditions, increased HIV/AIDS rates and drug-resistant TB strains. These and other

[3] Exchange rate: R6.8711/ US$*1 Business Day*, 19 October 2010, Latest Prices.
[4] The balance of the total amount comes from donors.
[5] UN Inter-Agency Group, 2010, *Levels and Trends in Child Mortality 2010 Report* ..http://www.childmortality.org/stock/documents/Child_Mortality Report_2010.pdf last accessed: 01/10/10.
[6] *South African Intergovernmental Fiscal Review 2009: Provincial Budgets and Expenditure Review* (http://www.treasury.gov.za/publications/igfr/2009/prov/04.%20Chapter%204%20-%20Health.pdf): 48; 53.

factors should be acknowledged but should not be used as a scapegoat or reason not to tackle money and poor management issues.

Since 2005/06 health spending has increased in real terms by 50%[7]. However, South Africa continues to fall short of the Abuja Declaration's commitment to allocate 15% of public budgets to the health function. It continues to fall short of this target despite poor health outcomes and the detrimental impact this has on the country's society as well as its economy. In 2010, additional rands required to reach the Abuja Declaration target of 15% allocation of public budgets is about R31.5 billion.

Figure 4: Health as a share of consolidated budget



Increases in public health allocations have generally kept up with the economic growth rate. At times they have exceeded the growth rate significantly, particularly in the 2005/06 budget and in the "recession budgets" of 2008/09 and 2009/10 when the budget, including health allocations, was used counter-cyclically. However, given the country's poor health status, the continued failure to meet the Abuja commitment remains disappointing. If the concern is that the health departments lack the capacity to absorb additional funds, then faster and deeper health reform needs to be focused on.

[7] Treasury, 2010, *Medium Term Budget Policy Statement* (http://www.treasury.gov.za/documents/mtbps/2010/): 34.

Figure 5: Real percentage growth of GDP and selected social spending

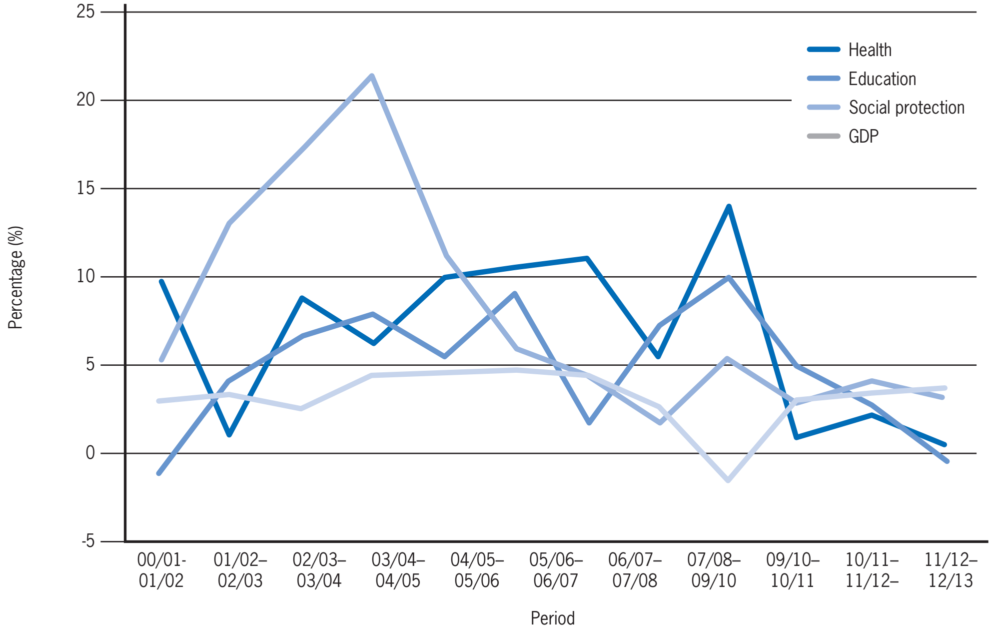


Figure 5 shows that, generally, health, education and social protection have increased at a faster rate than GDP over the last decade. However, it needs to be noted that health allocations, while moving in a positive direction, did not necessarily start from as good a base as other functions in terms of resource adequacy.

The 2010 MTBPS reasserts that health is a specific challenge of transformation that has to be addressed in order to meet South Africa's developmental needs. It outlines that to do this a focus on improvement of health care and health infrastructure will be undertaken. Thus additional funding for health will be earmarked accordingly such that the average nominal annual growth rate for the medium term is projected to be 7.6%. The lion's share of health spending (94.7%) over the coming medium-term will remain at the provincial level. This is the same anticipated rate of growth as that of education and public order and safety, but is less than the anticipated growth of total non-interest expenditure of 8.6%. It is also slower than the 9.5% nominal average growth for housing and community amenities and the 9.1% growth anticipated for social protection. State debt servicing costs, furthermore, are likely to increase by an average of 16.7% per year over this period. As a result of these proposed trends, by 2013/14 spending on housing and community amenities will roughly equal that on health, and spending on debt will be about 85% of the health budget. A further consequence is that health as a share of total non-interest expenditure will decline from 12.4% to 12.1%, and as a share of expenditure including interest from 11.3% to 11.0%.

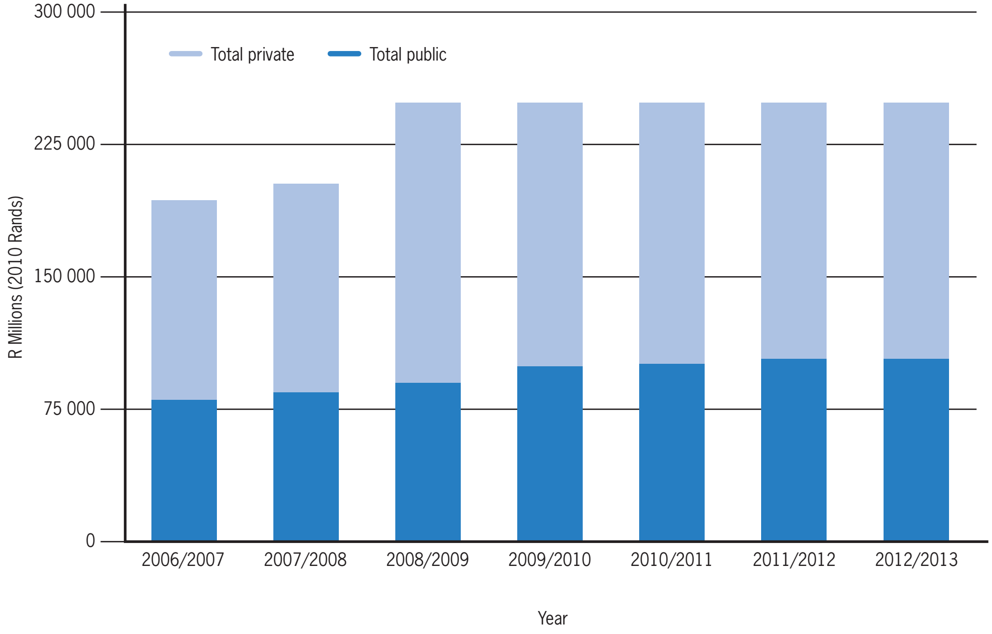
Notably, in the past under-spending of budget allocations by provincial health departments may well have given the treasury cause not to accelerate increased real allocations to the health sector[8]. More recently, provinces have reported over-spending on goods and services while under-spending on payments for capital assets. This is reflective of weak planning, bad contracting and poor contract management[9]. This year's MTBPS shows that in 2009/10 the health sector over-spent by about R2.4 billion, despite a mid-year upward adjustment of health allocations by R4.2 billion. KwaZulu-Natal and Gauteng stand out particularly in this regard with over-spending of R2 billion and R1.2 billion respectively. The MTBPS does not disaggregate these expenditure trends into recurrent versus capital spending, so it is hard to draw conclusions beyond the presumption that spending control remains uneven for provincial health departments. Comparing health to provincial expenditure trends for education, social development and "other functions" confirms the suspicion that institutional challenges remain in how allocated resources are managed. Thus, in looking at all four functions and all nine provinces, of the nine instances where over- or under-spending exceeded the adjusted budget by more than 4%, five occurred in health departments.

The ten-point plan for health reform in South Africa is a good and solid proposal which can in principle be measured and implemented in a step-by-step manner. However, it continues to lack time frames and real quantitative commitment strategies, despite being introduced in the 2009 MTBPS and reiterated in the 2010 Budget. National Treasury's call for overall measurable and time-bound commitments needs to reverberate throughout the health sector.

The relationship between public and private health care is another question to which substantial energy will have to be devoted in future health policy debates. A substantial share of total health care spending in South Africa currently comes from private funding. While a profit-motivated private health care sector as the main source of health services for a population is by no means optimal, there are ways in which the public sector could utilise the private sector's assets while a more effective and efficient public sector is (re)built.

[8] Economic Sector of the Policy Coordination and Advisory Services in The Presidency, October 2008, *Economic Sector Background Report for Fifteen year Review*, The Presidency, South Africa : 60.
[9] South African Intergovernmental Fiscal Review 2009: Provincial Budgets and Expenditure Review (http://www.treasury.gov.za/publications/igfr/2009/prov/04.%20Chapter%204%20-%20Health.pdf) : 51.

Figure 6: Total health care expenditure in South Africa[10]



Government's attempts at public-private-partnerships (PPP) may well yield a resource and equipment bridge from the lack of current public health care resources to a fully equipped and updated independent public health care system in the near future.

Table: 3 Health sector resources[11]

	Public	Private
Hospitals	399	211
Hospital beds	110143	28467
Clinics	3057	81
General Practitioners	10809	10498
Specialists, including registrars	4233	5996
Doctors	14867	16494

[10] Amongst other items included in the private sector calculations are out-of-pocket-payments and medical aid contributions; in the public some of the aspects included are workmen's compensation and the Road Accident Fund.
[11] Vulindlela, Health Professional Council 2004, Nursing Council 2008, Pharmacy Council in South African Intergovernmental Fiscal Review 2009: Provincial Budgets and Expenditure Review. (http://www.treasury.gov.za/publications/igfr/2009/prov/04.%20Chapter%204%20-%20Health.pdf)

It may also be possible to incentivise some of the specialists and doctors within the private sector to provide limited consultations for public patients at public sector prices; public sector health professionals may also be able to have access to more expensive equipment available in the private sector – such as cat scans – at cost price. In the 2010 MTBPS the minister sought arrangements to bring "private-sector capacity into a common health funding framework."[12]

The lack of MTBPS estimates for implementing a National Health Insurance (NHI) policy should not come as an overwhelming surprise. Much of the debate over the proposed NHI hinges on uncertainties about cost and funding issues. Cost estimates by advocates of the NHI have tended to be significantly lower than those calculated by those opposed to it. The differences in cost estimates revolve around three main points, namely the cost of systemic reform and elimination of capacity backlogs, the unit costs of services, and changes in utilisation rates as health becomes 'free' at the point of use.

For an NHI to be successful, the proposed 14-year roll-out period needs to be broken down into smaller timeframes with measurable outputs and goals. Hopefully the 2011 budget will provide more detail in this regard. In addition, as the process of NHI-based health reform is taken forward, it is important that it is characterised by transparency, accountability and citizen participation. These governance dimensions of health will be key determinants of the extent to which South Africans come to own and willingly contribute to a predominantly public health system.

4. Local government, service delivery and the MTBPS

Local government in South Africa is constitutionally required to ensure democratic and accountable government for local communities, to prioritise their basic needs and to promote social and economic development.

While significant progress has been achieved in some respects, the available evidence suggests that much remains to be done. The 2009 *State of Local Government Report* offers numerous instances of what has worked and what has not worked. The Department of Cooperative Governance and Traditional Affairs (CoGTA) and other stakeholders have also laid the much-needed foundation and sketched the way forward for local reform,

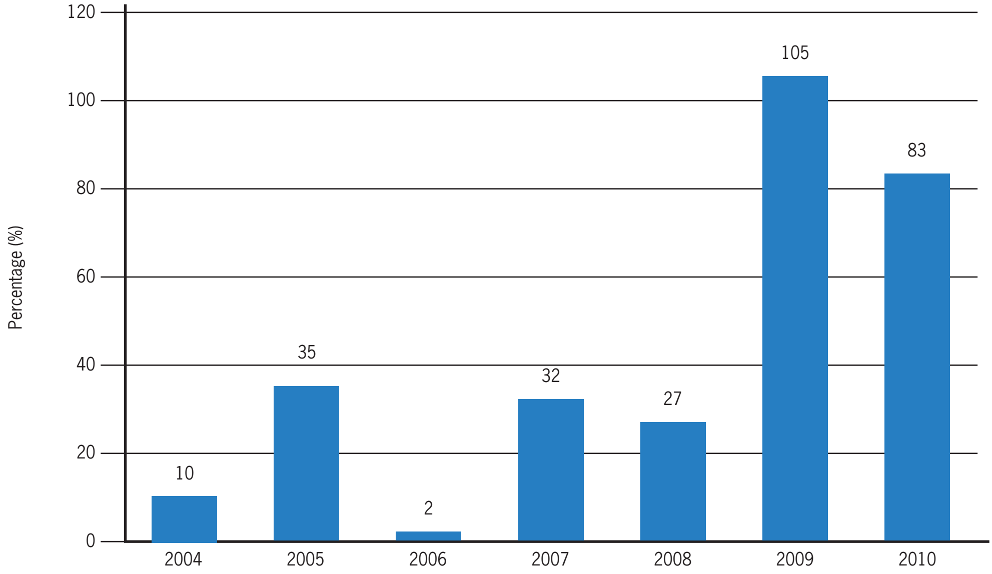
[12] Treasury, 2010, *Medium Term Budget Policy Statement* (http://www.treasury.gov.za/documents/mtbps/2010/):48.

particularly through the 2009 Local Government Turnaround Strategy (LGTS), the 2014 Operation Clean Audit, the Local Government 10-Point Plan, and the Service Delivery Outcome 9 with clear targets and measurable goals.

The 2010 MTBPS coincided with the 10^{th} anniversary of democratic local government. It also came a few months prior to the 2011 local government elections- a period that has come to be synonymous with heightened tensions and violent protest over local service delivery and at a time when the clock is ticking faster ahead of the 2014 Millennium Developmental Goal (MDG) for universal access to household basic services.

Though the implementation of the LGTS is already underway, there is little doubt that extra funding will be needed in addition to the R20 million earmarked for this strategy during CoGTA's 2010/11 budget vote. As shown in Figure 7, the number of service delivery protests decreased from 2009 to 2010, partly as a result perhaps of World Cup "fever" and partly due to promises of local reform and service delivery improvement. However, the extent of protests remains unacceptably high compared to the period between 2004 and 2008.

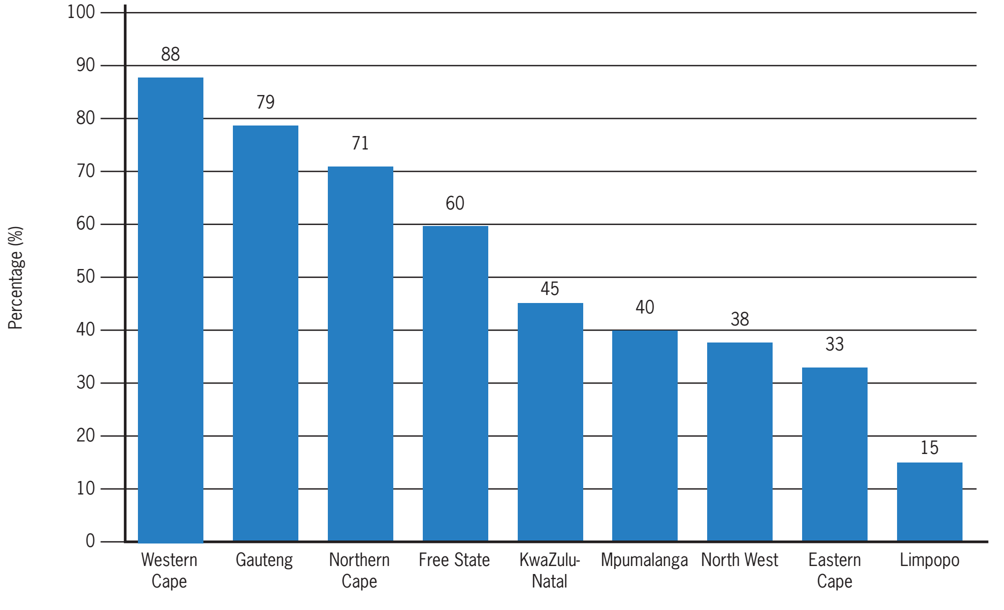
Figure 7: Service delivery protests by year



Source: www.municipaliq.co.za

Figure 8 shows that progress in access to basic services has been uneven across the provinces, with access measures largely conforming to provincial patterns of income and wealth. Access varies, in other words, according to whether municipalities are likely to have a decent own revenue base and whether they are urban or rural. In the worst provinces, more than half of the population are without basic services: KZN (55%); Mpumalanga (60%); North West and Eastern Cape (above 70%) and Limpopo with a remarkable 85%. Overall, significant improvement is needed to achieve universal household access to basic services, given that only 54% of the country's population has adequate access to water, electricity, sanitation and refuse removal.

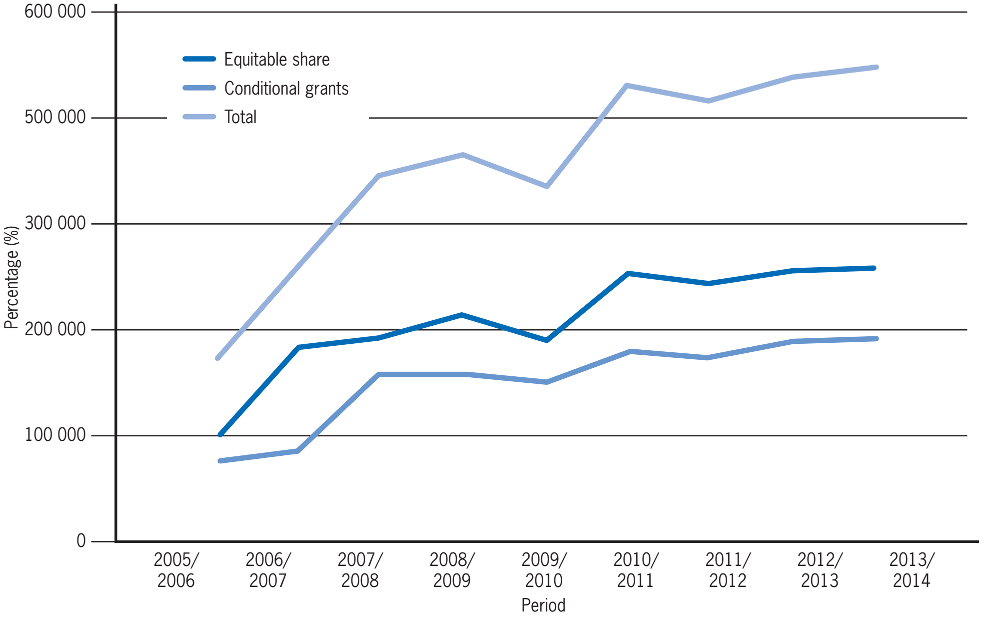
Figure 8: Population with access to basic services across provinces



Own calculations, data sourced from PMG

As shown in Figure 9, real transfers to local government have increased substantially from R20.8 billion to R40.4 billion between 2005/06 and 2009/10, and ultimately increased by 28% to reach to reach R51.8 billion in 2010/2011. Despite the slight decline between 2010/2011 and 2011/2012, transfers are set to increase from R50 billion in 2011/2012 to R54 billion in 2013/2014, or by 8%. The figure also shows similar trend in both the local equitable share and conditional grants. The equitable share and conditional grants are set to account for 58% and 42% of total transfers respectively in 2013/14.

Figure 9: Real transfers to local government (outcomes and estimates)

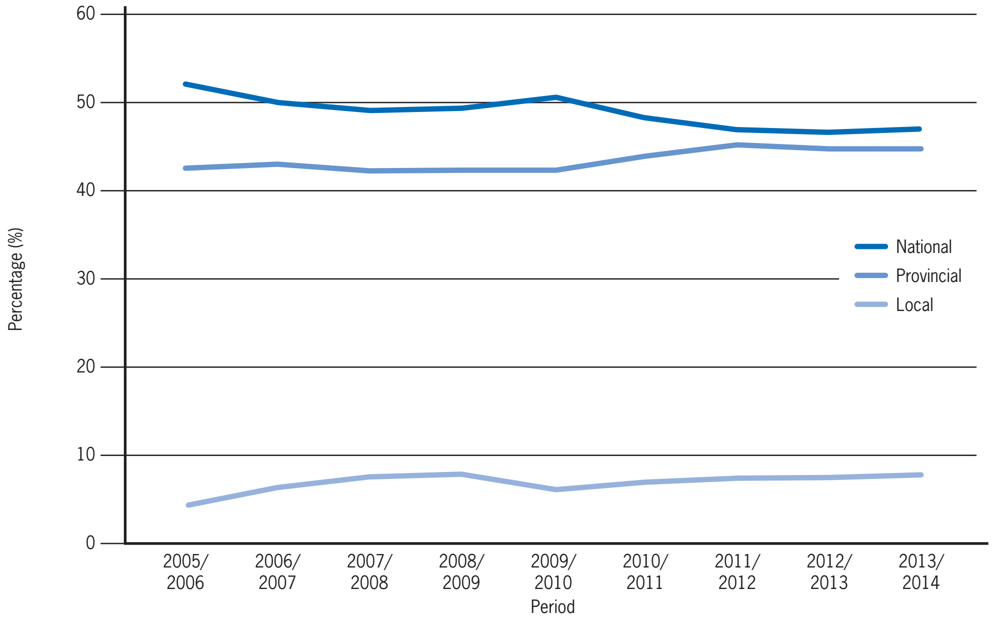


The 2010 MTBPS proposed strong growth in local transfers over the MTEF period reflecting strong commitments to up the pace of service delivery and anti-poverty commitment ahead of the MDGs target date. Municipalities also received 4.7% (R3 billion) of the R67 billion made available in addition to the baseline allocations.

Also noteworthy are the proposed adjustments to the local equitable share formula which are set to channel more funding to poor rural municipalities in 2011 and followed by a comprehensive review over the medium term. This signals an increased commitment to resolve the persistent horizontal inequities across municipalities and to enhance the pace of service delivery in poor municipalities. Also, the proposed new budgeting and management of capital projects and technical assistance on infrastructure maintenance will play a significant role. It will be of particular benefit to poor rural municipalities in light of the massive 2010 Fifa World Cup investment that require ongoing maintenance.

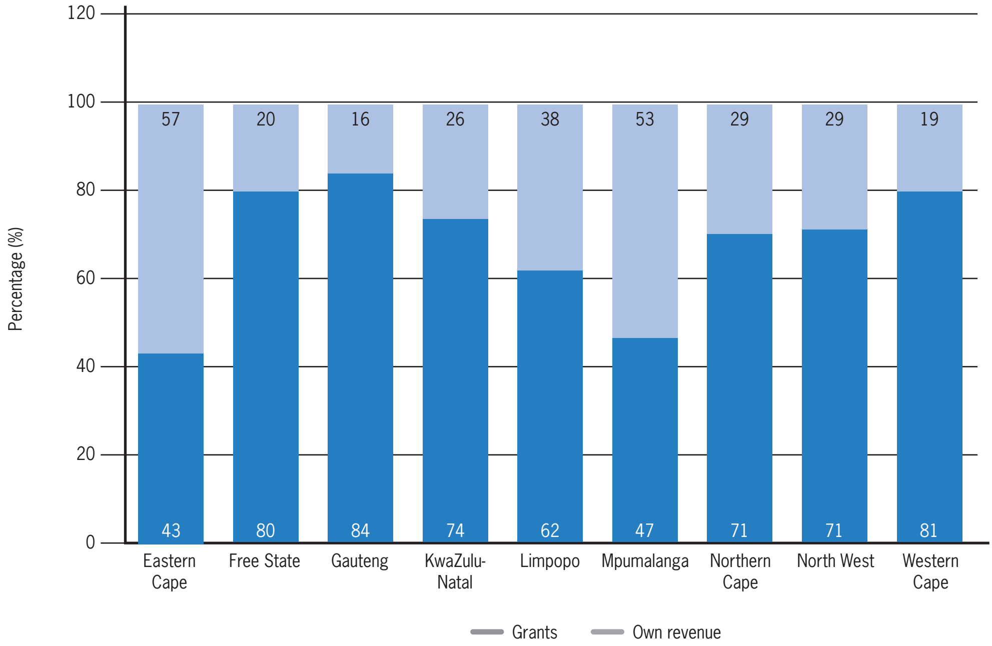
Figure 10 indicates that the real increase in total transfers to the local sphere represents a *prioritisation* of both the local and provincial spheres relative to the national sphere. This is another indication of increased efforts to accelerate service delivery ahead of the MDGs target date in 2015. However, the figure also confirms the well-known fact that the local sphere must remain heavily reliant on self-generated revenue if it is to fulfil its developmental mandate.

Figure 10: Real local transfers as a percentage share of total revenue



In aggregate, municipalities' own revenue performance remains high. The 2009/10 fourth quarter results, for example, show that of the R42.1 billion aggregated municipal revenue, own revenue accounted for 75% (31.6 billion), with grants contributing only 25% (10.5 billion). Figure 11, however, shows the persistent level of inequity across provinces with only Gauteng, Western Cape and Free State's own revenue shares accounting for more than 80% of their total revenue. In contrast, less than half of aggregated municipal revenue was self-generated in Eastern Cape (43%) and Mpumalanga (47%). Limpopo's 62% performance was also not impressive.

Figure 11: Own revenue and grants as a % share of total revenue as at 30 June 2010



Source: *Local Government Budgets 2009/10 Financial Year Fourth Quarter Local Government Section 71 Report – Preliminary Results.* Available at: www.treasury.gov.za

Of even more concern are problems of under-spending and under-collection of revenue. The fourth quarter results of the 2009/10 municipal financial year show that in aggregate municipalities spent R196.6 billion (92.2%) of their R213 billion adjusted budget; ultimately leaving 16.6 billion (7.8%) unspent. Only R210.8 billion (95.1%) of the R221.8 billion total budget adjusted revenue was collected, and ultimately showing a 7.8 (more than 11 billion) revenue shortfall. Both these indictors need to be taken into consideration because they reflect an undesirable degree of financial underperformance, with adverse effects on service delivery.

The aggregate R56.1 billion of municipal consumer debt, with government accounting for 5.2% (R2.9 billion) and households for 56.3% (R31.6 billion), is a clear indication of non-performing debt. The challenge seems higher in metros as they are owed R30.6 billion with the City of Johannesburg being owed R8.4 billion, Ekurhuleni R7.8 billion, Cape Town R50 billion and eThekwini R4.6 billion. Secondary cities face a similar problem and are owed R11.7 billion. Also linked to this is the excessive municipal revenue lost as a result of illegal connection and use of municipal services like water and electricity. For instance the Chief Executive Officer (CEO) of South African Local Government Association (Salga) recently noted that in the past year the City of Cape Town and Johannesburg lost R121 million and R250 million respectively due to illegal connections.[13]

Increased non-payment for municipal services in all likelihood also reflects the more difficult circumstances of many households due to the massive job losses of the 2008 and 2009 recession. The process of local government reform requires better and deeper dialogue and a new social compact between local government and citizens, as well as government entities and non-government entities, to discuss ways to resolve this, to help local government deliver on its promises. Such dialogue should also strive to resolve the tension between the use of efficiency-orientated cost recovery mechanisms and policies aimed at ensuring affordability and accessibility of basic services. This is pivotal given the increases in tariffs and user charges on basic services like water and electricity hinted at in the MTBPS speech.

A further issue that remains problematic, and that will hopefully be further addressed in the 2011 Budget, is that of housing. Whilst housing remains the concurrent function of national and provincial government, municipalities are the ones responsible for identifying suitable land and planning, managing and implementing housing projects. The amendment to the 1997 Housing Act, together with the National Government's Comprehensive Plan for the Development of Sustainable Human Settlements (BNG), has introduced a new Housing Accreditation Framework[14]. This has subsequently increased the role of municipalities in the provision of human settlements. Unfortunately, the slow progress observed even among metros approved for housing accreditation points to some flaws and bottlenecks in the broader institutional framework underpinning the transfer of revenue and expenditure for housing. Not a single municipality has been successfully accredited. In all fairness, the role of local government in the housing sector is yet to be clarified to avoid undue delays in the provision of housing. An urgent follow up on this issue, as indicated in CoGTA's Outcome 9, is needed. This should go alongside the planned review of provinces. Clarification of local government's role in this regard is crucial in order for concrete financing options to be considered.

[13] Jocelyn Newmarch, "New drive to battle R4.4bn power theft". Available at: http://www.businessday.co.za/articles/Content.aspx?id=124948. Accessed: 28/10/2010.

[14] The primary objective of the Housing Accreditation Framework is to prepare municipalities for a full assignment of housing by granting them the power to receive housing budget straight from National Government.

5. Conclusion

The discussion of fiscal policy and the closer look at the health and local government sectors have tried to provide some perspectives on the defining challenge over the coming medium-term. We regard this as an urgent tension between resource availability and the need for reforms in government functions which enhance accountability as well as the impact of spending. Such reforms will have to be well-considered and will also require deeper democratic participation if we are to realise the various kinds of partnership that are required for social transformation, job creation and the reduction of poverty.

Though budget spending in per capita terms has increased considerably in the last decade, the foreseeable future will be remarked by comparative resource scarcity as expenditure increases at a slower rate and the economy recovers slowly. At the same time, job losses and the continued structural division of the South African economy present a range of challenges which have upped the stakes.

The debates and consultations which will generate greater detail on a new growth path will be an important opportunity to consider alternatives and to secure broad ownership of a truly developmental framework. In these debates it is, of course, important that macro-economic debates are included, as well as debates on the allocations in the budget. But it is equally important that we focus strongly on the micro-dimension, and on particular challenges in particular sectors, and that we move decisively to address these.

Furthermore, the commitment to greater accountability and to improved oversight of spending by government can only be realised if it becomes an urgent priority for all South Africans and their representative institutions. Effective accountability will require better democracy at the local level, for example, and will require more robust engagement with spending performance by Parliament, as well as provincial legislatures. Though a great deal has been achieved through the budgets of democratic South Africa, we have yet to attain full value for money from public resources. The current period must become the one where this is achieved.