

The role of the provincial treasury in driving budget reform in South Africa's decentralised fiscal system

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Date first received 21/05/14

Date accepted for publication 60/08/14

ABSTRACT

After the transition to a fully democratic order in 1994, the adoption of the new *Constitution of the Republic of South Africa* in 1996 prompted the creation and development of a decentralised administrative structure consisting of three distinct, but interrelated and interdependent spheres of government (national, provincial and local government). It also led to the institution of a long-term budget reform initiative aimed at realising the constitutional ideals of efficiency, effectiveness, equity and development orientation. Significant budgets and expenditure responsibilities were devolved to the provincial governments, which deliver crucial public services such as providing basic education, supplying health services and building and maintaining roads. Provincial treasuries play a crucial role in driving the budget reform process in the subnational spheres, but most budget reform research to date has focused virtually exclusively on the role of the National Treasury. To fill this research void, this article explores the role of provincial treasuries as a critical institutional modality for implementing public financial management reforms in a decentralised fiscal setting. The article reviews the legislative framework for budget reform and the mandate of provincial treasuries as derived from the *Public Finance Management Act, 1* of 1999. It assesses the recent performance of provincial treasuries in driving budget reform in the provincial sphere, using national intervention in the Limpopo Provincial Treasury in 2012 as

a case study. The article concludes that the large variation in provincial treasury performance and capacity poses a serious risk to the realisation of public financial management reform benefits in South Africa.

INTRODUCTION

After the transition to a new democratic order in 1994, the adoption of the *Constitution of the Republic of South Africa*, 108 of 1996 prompted South Africa to create and develop a decentralised government structure consisting of three distinct, but interrelated and interdependent spheres of government, namely the national, provincial and local (municipal) spheres. It also led to the institution of a long-term budget reform initiative aimed at realising the constitutional ideals of efficiency, effectiveness, equity and a development orientation. Significant budgets and expenditure responsibilities were devolved to the provincial governments, which deliver crucial public services such as the provision of basic education, supplying health services and building and maintaining roads (Tapscott 2000). Provincial treasuries were created as an institutional means to promote fiscal coordination across the three spheres of government.

This article commences with a theoretical analysis of the challenges of coordinating public financial management (PFM) reforms in a decentralised fiscal system, and then explores a range of institutional mechanisms which can be used to achieve intergovernmental coordination, including provincial treasuries. Against this conceptual backdrop, the article reviews the legislative framework that underpins South African PFM reform and the mandate of provincial treasuries, as derived from the *Public Finance Management Act*, 1 of 1999 (*PFMA*) (South Africa 1999). Next, it assesses the recent performance of provincial treasuries in driving PFM at the provincial level. The national government intervention in the Limpopo Provincial Treasury in 2012 is examined as a case study to explore the impact of provincial treasury performance on the financial health of a provincial government.

METHODOLOGICAL APPROACH

The key hypothesis underpinning this article is that effective PFM reforms in decentralised fiscal systems require strong coordinating institutions, especially provincial treasuries. Conversely, weak provincial treasuries undermine the effectiveness of PFM implementation in the provincial sphere. Despite the

pivotal role of provincial treasuries in implementing PFM reforms, there is little relevant international public administration literature, and virtually no South African research on the topic.

To explore the hypothesis that effective PFM reforms in decentralised fiscal systems require strong coordinating institutions, especially provincial treasuries, a case study approach was employed in the study reported in this article. A case study may be defined as an empirical study which “investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Luton 2010:125). Case studies are extremely useful public administration research instruments because they bridge the gap between theoretical frameworks and the complex interplay among political, administrative, economic, historical and cultural factors which shape unique administrative contexts where the uncritical transfer of policy responses from one setting to another may be of limited relevance (Luton 2010). This is particularly pertinent to the provincial administrative sphere, where the context of PFM reform differs substantially across provincial governments.

COORDINATING PUBLIC FINANCIAL MANAGEMENT REFORM IN A DECENTRALISED FISCAL SYSTEM: A CONCEPTUAL OVERVIEW

The key objective of all public fiscal systems is to maintain macroeconomic stability and fiscal discipline (neither over- nor underspending), allocative efficiency (appropriate prioritisation, resulting in the optimal welfare-maximising mix and quantity of public goods and services within given budget constraints) and operational efficiency (obtaining the maximum amount of goods and services of a given quality from a given quantum of public resources) (Schiavo-Campo and Tommasi 1999; Schick 1998). For developing countries with decentralised systems, equity in public service delivery across the various jurisdictions may also be an important objective of the public financial management system.

In multi-level government arrangements (which may include national/federal governments, state or provincial governments, as well as local government), the coordination of budgetary policy and implementation is critical. This is especially true where there are concurrent (shared) competences in which, for instance, national government may set policy and subnational governments must implement that policy, or where subnational governments have substantial own revenue and borrowing powers and/or expenditure responsibilities. Coordination can ensure that the fiscal policies of the various tiers of government

mutually reinforce each other, contributing to national, provincial and local policy goals, or at least do not institute contradictory policies and practices. Unfunded mandates, for example, may arise due to ineffective coordination, if subnational governments are assigned powers and functions with corresponding expenditure responsibilities, but are not given commensurate additional financial resources (Dilger and Beth 2014). This kind of disjuncture undermines equity in access to, and quality of, public services across various subnational jurisdictions.

In decentralised unitary states, such as South Africa, the central government – and the National Treasury in particular – has to fulfil a supervisory role over subnational counterparts, monitoring their aggregate revenues and expenditures, and whether subnational governments (such as provincial and local governments) achieve value for money and minimise unproductive expenditure and corruption. Schick (2001) describes the changing role of national government treasuries in leading PFM reform as follows:

The new role of the central budget office revolves around maintaining a system of accountability for the government. This entails prescribing information systems and reports, sharpening the capacity of spending departments to measure productivity and output, comparing results against expectations, and ... managing the process of change. (Schick 2001:25)

PFM reform can provide the necessary financial information (for example, on unit costs of service delivery) and performance information on service delivery outputs and outcomes (relative to national norms and standards) to enhance accountability in a decentralised government environment (Graham 2006). Potter (1997) describes some of the institutional mechanisms to promote coordination in decentralised intergovernmental budget processes:

- the common assumption by all governments of the macroeconomic variables that underpin the budget (such as economic growth rates, inflation rates and exchange rates);
- a set of uniform revenue and expenditure classifications, as well as budget programme structures and other treasury norms and standards;
- the adoption of identical financial years across all spheres of government;
- Medium-Term Expenditure Frameworks (such as three- to five-year rolling budgets);
- accurate, timely and consistent budget monitoring, reporting and evaluation systems ;
- consistent service delivery performance indicators;
- fiscal rules limiting subnational governments' authority to raise revenue, spend or run deficits;

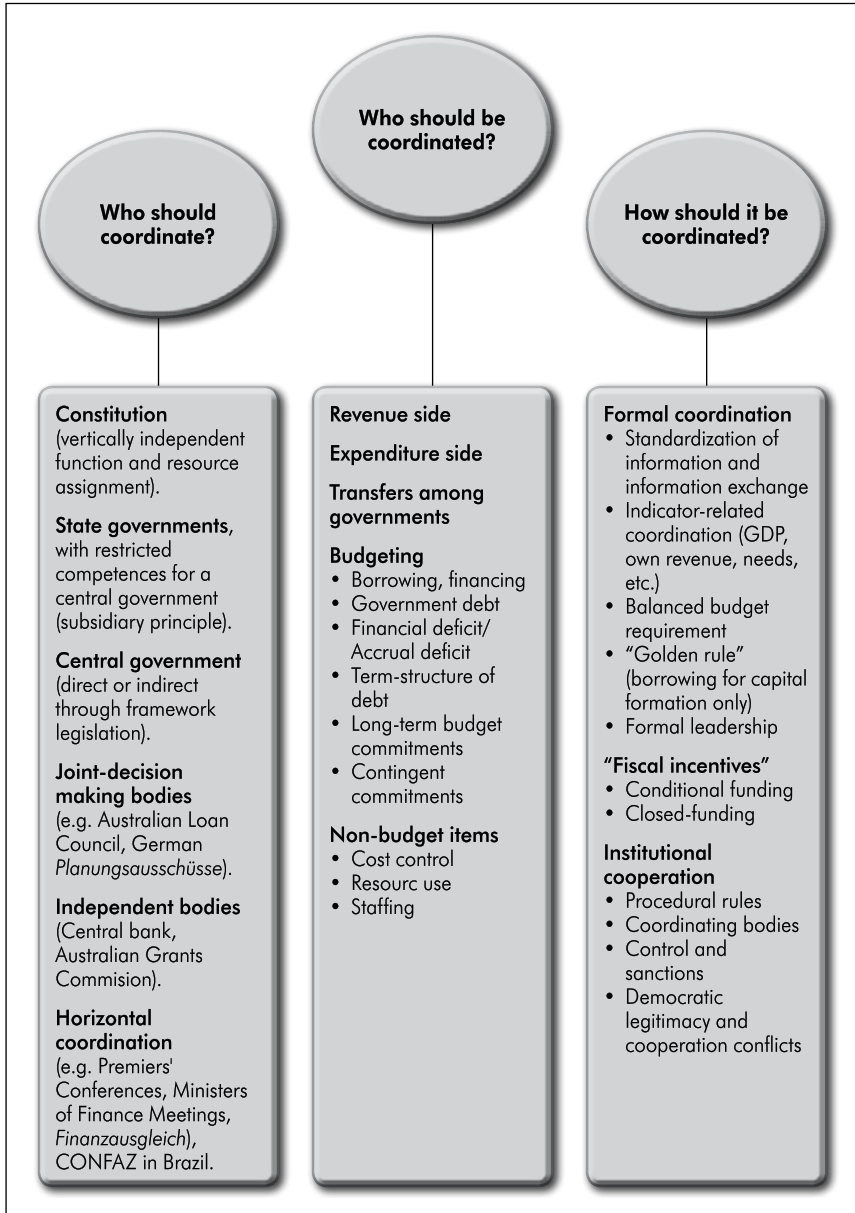
- strong supreme audit institutions (such as the Auditor-General of South Africa);
- contingency reserves at a national and subnational level to deal with exogenous shocks (crises that are beyond the control of the national or subnational governments);
- conditional intergovernmental grants which provide an incentive to subnational governments to spend on national priorities or to deal with spillover effects;
- the management of the interface of national and subnational governments with international capital markets in order to minimise the costs of borrowing and to preserve a macroeconomic balance; and
- the management of guarantees or other forms of contingent liabilities (ones that may be incurred by an entity, or not, depending on the outcome of a future event, such as a court case).

In the diagram in Figure 1, Spahn (1998) summarises the main objects of budgetary coordination (what should be coordinated), the modalities of intergovernmental budgetary coordination (how fiscal policy should be coordinated across all governments) and the institutional roleplayers (which institutions should coordinate the intergovernmental budget process). These roleplayers would include both federal (national) and state (provincial) treasuries, other line departments and the various legislatures.

Decentralised government structures and complex intergovernmental relations systems create a demand for PFM reforms to promote intergovernmental budgetary coordination, consistent accounting standards (which can therefore be consolidated), and effective monitoring and evaluation of financial and service delivery performance of subnational governments. Intergovernmental relations mechanisms such as performance-related conditional grants can also be used to drive budget reforms in subnational governments, for example, incentivising increased value for money (Lalvani 2010). Coordinating effective PFM implementation therefore requires significant institutional capability in both national government and subnational jurisdictions, such as provincial governments and municipalities, and especially provincial treasuries. Government-wide monitoring and evaluation reforms can also play an important complementary role in fostering better coordination of planning and budgeting across spheres of government (South Africa. Presidency 2007 and 2009).

Against the backdrop of the conceptual framework for the PFM coordination outlined in this section, the next section outlines the legislative framework for fiscal coordination across national and provincial spheres in South Africa, and considers the role of provincial treasuries in that broader context.

Figure 1: Institutional framework for fiscal coordination and cooperation in decentralised governments



Source: Spahn (1998:18)

LEGISLATIVE FRAMEWORK RELEVANT TO COORDINATING FISCAL FUNCTIONS ACROSS THE THREE SPHERES OF GOVERNMENT

Unlike the constitutions of most other countries, the *Constitution of the Republic of South Africa*, 108 of 1996 (South Africa 1996), Chapter 13, addresses public financial management in detail. Section 215 regulates national, provincial and municipal budgets, and requires national legislation to prescribe both the form of the budgets and when they should be tabled. Section 216 deals with treasury control, and requires legislation to “establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government” by introducing, among other things, “generally recognised accounting practice” and “uniform treasury norms and standards”. In addition, sections 217, 218 and 219 deal with procurement, government guarantees and the remuneration of persons holding public office respectively (South Africa 1996).

Section 228 of the Constitution assigns revenue sources to provincial governments. These sources are not very buoyant, as most of the high-yielding revenue bases (such as corporate and personal income tax, and value-added tax) are retained in the national sphere, through the South African Revenue Service. However, provinces have significant expenditure responsibilities and comparatively small own revenues, so section 214(1) (a) of the Constitution confers on provincial governments the right to an “equitable share” of nationally collected revenue. In addition to the provincial equitable share, which is unconditional, section 214(1)(c) also permits national government to extend to provincial government, from its national share of revenue, conditional allocations which are earmarked for a specific purpose.

The unconditional nature of the equitable share intergovernmental grant means that this allocation is able to substitute for provincial governments’ own revenue and strengthen the integrity of provincial government as a sphere of government, rather than as merely an administrative extension of national government (Ajam 2001; Levy and Tapscott 2001). National government does not prescribe directly to provincial governments how they should spend their equitable share allocations, but it is understood that provincial governments have to spend these allocations in a manner consistent with the norms and standards of service delivery set by the national government. Moreover, the conditions of service of provincial civil servants are negotiated centrally, via collective bargaining in the national sphere. Given that provincial government services such as health services and education are very labour-intensive and that personnel budgets constitute the lion’s share of provincial government expenditure, in practice, provincial governments have limited fiscal discretion. Furthermore, section 230 of the Constitution imposes the fiscal rule that

provincial operational budgets must be balanced (since it only allows debt financing for bridging purposes within a particular financial year); however, provincial capital borrowing is permitted.

Many parts of the Constitution refer to ‘minimum standards’ for rendering services (for example, section 44 (2)(d)). The implication of the term ‘minimum standard’ is that standards of service delivery may vary across provinces, provided that they comply at least with the minimum standard (Layman 2003). By contrast, section 216 of the Constitution requires ‘uniform treasury norms and standards’ and ‘uniform expenditure classifications’ – thus, identical treasury standards across all three spheres of government – to enable consolidated and coordinated intergovernmental budgeting and financial reporting. This emphasises the National Treasury’s considerable legal power to enforce uniform norms and standards across all spheres of government.

The national framework legislation which gives operational substance to sections 215 and 216 of the Constitution is the *Public Finance Management Act*, 1 of 1999 (*PFMA*) (South Africa 1999). The Explanatory Memorandum of the *PFMA* indicates that the Act aimed to modernise financial management in national and provincial government, and to put in place an effective fiscal governance framework which would “break from the past regime of opaqueness, hierarchical systems of management, poor information and weak accountability”. In contrast to the rule-driven national and provincial Exchequer Acts which it supplanted, the *PFMA* focuses on “outputs and responsibilities”.

The *PFMA* provides for the establishment of the National Treasury, the National Revenue Fund, provincial treasuries and provincial revenue funds. It also addresses national and provincial budgets and other matters dealt with in Chapter 13 of the Constitution. It should be noted that, unlike the National Treasury, which has constitutional foundations, the provincial Treasuries are created by statute. Their powers are essentially delegated by the National Treasury. Even prior to the promulgation of the *PFMA*, the National Treasury introduced the Medium-Term Expenditure Framework (three-year rolling budgets) in 1997 and the Medium-Term Budget Policy Statement in 1998 to facilitate intergovernmental planning and budgeting (Folscher and Cole 2006).

There are a number of mechanisms in the Constitution to enforce uniform norms and standards. Section 100 of the Constitution permits national government to intervene if a provincial government is unable or unwilling to carry out an executive obligation. Given that the stipulations of the *PFMA* would constitute an executive obligation, the National Treasury has the prerogative to invoke section 100 in instances of serial, egregious breaches of Treasury norms and standards. It should be noted, however, that section 100 uses the phrasing “the national executive *may* intervene” (our emphasis) in the event of the failure of a provincial government to fulfil an executive obligation. This implies that invoking a section

100 intervention is discretionary for the national government. There are no other legislative guidelines on when section 100 should be invoked. This raises the potential problems that a section 100 intervention might be delayed until it is too late to take effective pre-emptive or remedial action (especially if the same party is in power both in the national government and in the affected province), or that an intervention might be arbitrarily invoked for political reasons (for example, to discredit an opposition party governing a provincial government).

This phrasing is in contrast to the provisions on municipal interventions in section 139 of the Constitution, which initially had the same phrasing as section 100, but was later amended to specify that if a municipality is in a financial crisis or cannot pass a budget (a legislative function), then it is mandatory for the provincial government to intervene. If the province is unable or unwilling to intervene, then the national government must intervene in the municipality in place of the provincial government. The *Local Government: Municipal Finance Management Act*, 56 of 2003 and its regulations also provides that indicators of fiscal stress can trigger intervention (South Africa 2003).

In addition to section 100, section 216(3) of the Constitution allows the National Treasury to stop the transfer of a provincial government's equitable share purely on the grounds of financial mismanagement, but then only under strict supervision by Parliament. However, grants allocated under section 227(1(b)) may be conditional and, thus, by definition, may be used to persuade provinces to act in certain ways. If conditions are not met, transfers can be stopped. These checks and balances ensure that national government cannot arbitrarily apply funding pressure to compel provincial actions, but gives national government some leverage to enforce provincial compliance with norms and standards.

The South African constitutional and legislative framework outlined above is clear about what should be coordinated, how and by whom. However, it cannot guarantee the efficacy with which this legislative framework is operationalised and complied with by stakeholders, particularly provincial governments, as the Limpopo Provincial Treasury case study discussed below illustrates. Provincial treasuries play a pivotal role in enforcing PFM legislation and building PFM capacity in line departments to achieve PFM reform objectives. As the case study of Limpopo Provincial Treasury below so cogently demonstrates, where provincial treasuries are weak, this is likely to undermine PFM reform outcomes seriously in provincial governments.

LEGISLATIVE MANDATE OF PROVINCIAL TREASURIES

This section of the article focuses on the role of the provincial treasuries in driving public financial management reform and modernisation. Unlike the

National Treasury, which was created by the Constitution itself (sections 215 and 216), the nine provincial treasuries were established by statute. The provincial treasuries were established in 1994, soon after South Africa's transition to a democratic order, and they were subsequently formalised in terms of section 17 of the *PFMA* in 1999. The Member of the Executive Council (MEC) for finance as the head of the respective treasury takes policy decisions, supported by the provincial government department responsible for financial matters in the respective province.

Sections 18 and 19 of the *PFMA* detail the functions and powers of a provincial treasury in preparing the provincial budget and in controlling its execution, to ensure that the management of revenue, expenditure, assets and liabilities by provincial government departments is effective and transparent, and provincial fiscal policies do not undermine national economic policies. The provincial treasuries are required to implement national legislation such as the *PFMA*, the *Local Government: Municipal Finance Management Act*, 56 of 2003 (South Africa 2003) and the annual *Division of Revenue Act*, as well as their supporting regulations.

Provincial treasuries have two other important functions. First, they serve as custodians of the provincial revenue fund, charged with ensuring that all revenues accruing to the provincial government are paid into the fund, and are effectively managed and audited (sections 21 to 25 of the *PFMA*). Second, they must prepare consolidated annual financial statements of the provincial government as a whole, consisting of all departments, provincial public entities and provincial legislature.

From the above, it is clear that effective provincial treasury leadership in financial management reform is pivotal in ensuring that provincial line departments attain the financial management maturity and capability to achieve the objectives of the *PFMA*. Conversely, poor performance by under-capacitated provincial treasuries poses a real risk to institutionalising modern, effective, transparent and accountable financial management practices in provincial departments, which are entrusted with significant fiscal resources to deliver crucial public services such as the provision of basic education, health services, and agricultural support services, and the building and maintenance of provincial roads.

RECENT PERFORMANCE OF PROVINCIAL TREASURIES

In 2013, for the first time, the Auditor-General assessed the performance of key national and provincial departments which are, through oversight, supposed to assure the quality of provincial line departments' annual financial statements,

as well as their follow-up on audit issues previously raised by the Auditor-General. The Auditor-General's evaluation was based on "interactions with the departments, commitments given and honoured and the impact of their actions and initiatives". The results of the 2013 assessment are reflected in Table 1.

Table 1: Auditor-General's assessment of the level of assurance provided by coordinating/monitoring departments

Role players	Meets required level of assurance	Provides some of required level of assurance	Significantly lower than required level of assurance
Office of the Premier		89%	11%
Provincial treasuries	11%	78%	11%
National Treasury		100%	
CoGTA		100%	
DPSA		100%	
The Presidency		100%	

Source: South Africa. Auditor-General (2013:160)

The table shows that the quality of financial assurance in the provincial treasuries and the Offices of the Premiers tended to be worse than that in their national government counterparts. It also suggests that there are wide variations in the quality of provincial treasury oversight: only one principal treasury (11%) fully met assurance requirements, seven partially met these requirements, and one provincial treasury fell far short of the requirements. To explore in greater detail how the capability and performance of provincial treasuries can either support or undermine the financial health of provincial governments, a case study of the national intervention into the Provincial Government of Limpopo in 2012 is presented below.

CASE STUDY: LIMPOPO PROVINCIAL TREASURY AND NATIONAL GOVERNMENT INTERVENTIONS

In December 2011, the national government announced a section 100 intervention in the Free State, Gauteng and Limpopo provincial governments. The Provincial Government of Limpopo experienced a cash crisis, was technically insolvent, and faced a potential shortfall of R2 billion at the end of

the 2011/2012 financial year. The province had large accumulated unauthorised expenditure, which grew from R1,5 billion in 2009 to R2,7 billion in 2011. Accruals in the form of unpaid expenditure (unpaid invoices from suppliers) had grown to R500 million by the end of March 2011.

Having exhausted its R757,3 million overdraft facility with the Corporation for Public Deposits, the Provincial Government of Limpopo requested the National Treasury to increase its facility by R1 billion (to R1,7 billion) to permit the province to pay salaries and wages on 23 November 2011. This request was declined, but the National Treasury brought forward the transfer of the province's equitable share grant. An intervention was instituted in terms of section 100(1)(b). The Director-General of the National Treasury in his letter of response to the province cautioned that "unless there is urgent action taken by the province to address these issues, the Limpopo Provincial Treasury is likely to preside over a serious failure of public systems and process for service delivery in the province" (South Africa. Minister of Finance 2011).

It was alleged in a news article in the *Mail & Guardian* on 15 December 2011 that the Limpopo intervention was politically motivated (South Africa. Minister of Finance 2011). The article claimed that other provincial governments were in a worse financial position, but that the National Treasury had not acted against them because they supported President Zuma's faction of the governing party. Other criticism of the intervention centred on insufficient political consultation. For example, the ANC Youth League (ANCYL) in Limpopo observed the following:

What is puzzling is that Limpopo Provincial Government has been targeted while we are not the worst province and we are not the only province to apply for an overdraft. Other provinces requested overdrafts exceeding the R1 billion requested by Limpopo yet those provinces are not targeted (ANCYL 2012).

The Ministry refuted this assertion (South Africa. Minister of Finance 2011). On 10 January 2012, the Minister of Finance met with the Premier of Limpopo, Mr Cassel Mathale, and they agreed that the most pressing priorities were to present a credible budget in the province within the time frame required by the *PFMA*, to stabilise the finances of the province, and to settle the payment of suppliers with legitimate claims (South Africa. Minister of Finance 2012).

Under the auspices of an inter-ministerial task team, officials from the national government were deployed to Limpopo to ensure that the provincial treasury and provincial government as a whole was placed on a sound financial footing, with effective financial management and fair and transparent supply chain management:

By December 2011, it became apparent that the provincial treasury management function in Limpopo had collapsed – there was no proper cash management system in place and the budget section of the provincial treasury appeared to have been dysfunctional.... In recent times the Province was paying certain service providers 8 times in a month. The frequency of payments did not provide for an opportunity for proper verification, nor did [it] permit proper management of cash. This practice will not continue as it leads to bad business practices (South Africa 2012:3).

In addition, financial reporting lacked credibility and there was serial and serious deviation from procurement regulations (South Africa 2012). Interestingly, in the previous 2010/2011 financial year, the Limpopo Provincial Treasury had received an unqualified financial audit, with findings related only to Information Technology (IT) governance and IT control weaknesses (South Africa. Auditor-General 2011). It is a matter for concern that the external audited conducted by the Auditor-General did not detect the material going concern issues, although it is possible (but very unlikely) that the systemic collapse of the provincial treasury manifested only in the nine months of the 2011/2012 financial year.

On 19 January 2012, the African National Congress Women's League (ANCWL), Limpopo released a statement which included the following concern:

We are also concerned about the shifting rhetoric by the National Treasury. Interestingly, the rhetoric towards the end of 2011 was that the provincial administration couldn't pay service providers because it was bankrupt. The rhetoric has now shifted. We are told that the reason for non-payment of service providers is internal sabotage to make national government look bad. Who is fooling who? (ANCWL Limpopo 2012)

At the ANC Provincial Executive Council (PEC) Meeting on 23 January 2012, the PEC

... noted with concern the accusations of sabotage made by the National Minister of Finance, that some individuals are sabotaging the payment processes of service providers. The ANC in wishes to encourage the Minister of Finance to inform Provincial Government of the specific individuals who are responsible for the sabotage so that the matter can be dealt with swiftly and effectively. The ramifications of non-payment of service providers are hurting our Limpopo communities. Saboteurs must be dealt with urgently (ANC Limpopo 2012: n.d.).

This chronic dysfunction by the provincial executive seems to have been exacerbated by a vacuum in provincial legislature oversight, which attracted some criticism:

The fact that the provincial legislature in Limpopo appears to have been passive in the face of the alleged financial meltdown and effective bankruptcy (at least according to the national cabinet's assessment of the situation) of the province is remarkable. It appears that the notion that all power resides in the ANC (bruted abroad by the Limpopo PEC of the ANC) has caused constitutional amnesia which absolves the Members of the Provincial Legislature from doing their duty and exercising their responsibilities. Furthermore, the ability of party bosses to pick and choose who gets on to, and stays on, the party list has so emasculated legislatures that their accountability and oversight functions are all too often more illusory than real (Hoffman 2012: n.p.).

In a presentation the Portfolio Committee on Public Service and Administration in June 2012, the National Treasury reported that the liquidity and solvency crisis had been resolved. As reported by the Parliamentary Monitoring Group (2012);

- the situation had improved from a negative position in November 2011 to close at a positive R231 million overall at the end of March 2012;
- a credible budget had been drafted and tabled on 6 March 2012;
- payments to suppliers were normalising (total payments outstanding were R1.1 billion in terms of the annual financial statements, but bank balances exceeded this amount by June, enabling a notice to be posted in the local media for suppliers still awaiting payment to submit invoices and purchase orders directly to the Provincial Treasury, to verify and settle) and in future, payment intervals in the province would be aligned to receipts from the national government to avoid future liquidity problems;
- a revenue enhancement strategy was being finalised and a Human Resources Task team had been established to deal with personnel-related pressures;
- a detailed plan had been developed to capacitate the budget planning and cash management functions in the provincial treasury;
- a recruitment process had been instituted to fill the vacant Head of Department (HOD) position and other critical positions in the provincial treasury; and
- an integrated support plan to departments was being finalised.

In answer to the question from a Member of Parliament as to whether the Limpopo Provincial Treasury HOD post was vacant, or whether the previous

incumbent lacked capacity or qualifications, a senior National Treasury official deployed to Limpopo responded as follows:

The HOD that was in place was previously an accountant so he understood the financial aspect of the role but it was another thing to understand the full scope of the job, which involved management. And that was one thing we picked up on – that the HOD did not have that ability and did not understand the full ambit of his responsibility. There were other examples where problems arose with staff who were not competent to be able to do their jobs once a Head of Department shifted functions and moved from one division to another. In relation to the Free State, it had a tradition of a very strong treasury but what happened was that the Premier had moved one treasury employee who had been in charge of the budget to a municipality which accounted for concerns over removing talented employees to other areas without a backup in place. (Parliamentary Monitoring Group 2012: n.p.)

This indicates that the political-administrative interface constituted a serious source of instability in the provincial government of Limpopo at the time, and that (possibly related) human resource challenges were another challenge. Often capacity issues were compounded by a lack of accountability, with serious consequences for serial and egregious non-compliance and underperformance. In addressing the Portfolio Committee on Public Service and Administration, a senior National Treasury official noted that, in his 14 years of service with the National Treasury,

... only once before had he dared to say this to Parliament and he had not been kicked out, so he would say it again now: There were just no consequences in government. If someone did not do their work, then they must be fired. The problem was that nobody asked any questions of the culprits, and those people were still there. They should be fired. And that was at the heart of the problem. One should not forget the political interface of the system where many of these problems are created. (Parliamentary Monitoring Group 2012: n.p.)

On the face of it, there seems to have been a remarkable short-term improvement in the short-term financial position of the provincial government of Limpopo. It remains to be seen whether this apparent turnaround can be sustained. Furthermore, it is too early to tell whether cutting public expenditure has protected basic service delivery and future capability (for example, maintenance and training) and has in fact focused primarily on luxury, wasteful and unproductive expenditure.

The Financial and Fiscal Commission has also strongly urged the alignment of the provincial intervention processes set out in section 100 of the Constitution and section 6 of the *PFMA* to bring them in line with the intervention framework governing local government. In particular, the Financial and Fiscal Commission (2012) has made a number of recommendations which can be summarised as follows:

- *Align Section 100 of the Constitution with Section 139*, with a view to making intervention mandatory in the event of financial crises in provinces, as it already is for municipalities.
- *Make Section 6 of the PFMA more explicit* (and similar to Section 136 of the *MFMA*) by setting out criteria for determining serious financial problems, with clear measurable factors of what constitutes persistent material breach or the inability to fulfil executive financial obligations.
- *Introduce an early warning system* and promote transparency. Once these criteria are spelt out, National Treasury must disclose key fiscal data, exposure to hidden liabilities and action plans to address the Auditor-General's findings on a quarterly basis (Section 32 reports).
- *Share responsibility for intervention* at provincial level between Provincial Treasuries and the Legislature. Provincial Treasuries must monitor and disclose key fiscal health indicators at provincial department level, where prolonged deviation (as defined by the amended *PFMA*) from expected or healthy fiscal trajectory triggers automatic intervention mandated and overseen by provincial legislature. This will enable the provincial executive to be held accountable and to take the necessary remedial action expeditiously.
- *Develop clear and objective guidelines for when interventions should be triggered* in accordance with the Constitution or subordinate financial legislation. This would dispel the perception that financial accountability takes precedence over service delivery accountability.
- *Set clear norms and standards for the performance of Provincial Treasuries* in the *PFMA*. This will reinforce the Treasuries' authority to exercise their functions without undue interference from organs or persons when implementing provincial budgets and promoting sound financial management practices. Further, the National Treasury should periodically review the institutional capacity of provincial treasuries, assessing factors as diverse as filling of critical positions, cash and expenditure management, functionality of budget office and political meddling in procurement affairs, in line with its Constitutional responsibility.

CONCLUSION

In general, there is a strong constitutional and legislative framework in South Africa that underpins PFM coordination across the three spheres of government, although

some fine-tuning may be warranted in respect of the regulation and application of section 100 interventions. However, the biggest challenge for intergovernmental fiscal policy is not *ex ante* coordination of planned revenue and expenditure during the intergovernmental budget process. It lies, in fact, in budget execution across all three spheres of government and public entities – making sure that *ex post* revenue and expenditure outcomes are aligned with the intentions embodied in budgets, without overspending on operating budgets because of an inability to contain personnel expenditure and poor supply chain management practices, and underspending on capital budgets. The vast variation in provincial treasury performance and capacity pose a serious risk to realising PFM reform objectives.

This article has demonstrated that deficiencies in the technical dimensions of PFM are not the sole impediments to the effective implementation of PFM reform in provincial governments, but that problems are exacerbated by an unstable political-administrative interface in which governing party factionalism spills over into administration and governance, effective legislative oversight is often lacking and it is difficult to distinguish between a lack of capacity and lack of accountability and sanctions for non-performance.

The sobering international economic outlook means that fiscal austerity will be the order of the day over the 2014/2015 to 2016/2017 Medium-Term Expenditure Framework. The tight fiscal policy will continue to test the robustness of the South African intergovernmental fiscal relations systems and budget coordination mechanisms. Squeezing inefficiencies and corruption out of provincial PRM systems and increasing value for money and the development impact of public spending will require technically capable provincial treasuries with strong political championship. Building the institutional capability of provincial treasuries that perform poorly on an ongoing basis should be a key priority for institutionalising PFM reform further in South Africa, and building effective coordination institutions.

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