ASSESSMENT OF COMPLIANCE TO FISCAL POLICY IN THE NORTH WEST PROVINCE: THE CASE OF THE DEPARTMENT OF LOCAL GOVERNMENT AND HUMAN SETTLEMENT

BY

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DECLARATION

I, **MATSHIDISO PHALLO (NTHO)**, do hereby declare that this dissertation is the result of my investigation and research and that this has not been submitted in part or full for any degree or examination to this or any other University.

October 2015

Signature　　　　　　　　　　　　　　　　　　　　Date

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Abstract

This study examined the compliance to fiscal policy in the North West Province by the Department of Local Government and Human Settlement. This is based on the fact that Government uses the two macro instruments to measure compliance of fiscal policy, which are taxation and government spending to enable it to provide services such as health, education and social welfare to the people. Data were collected using a questionnaire instrument developed through review of literature along with focus group findings. In terms of the employee knowledge on fiscal policy, the findings showed that participants have adequate knowledge of fiscal policy. The results of the level of compliance implementation of fiscal policy in the Department of Local Government at 59 % highlighted that government did not comply with carrying out dissaving and 51% indicated that government is not compliant with equitably allocating funds. One of the recommendations the study made is that there is a need to improve the compliance level of the department of Local Government and Human Settlement in order to save the public funds by involving all employees in the budget process.

Keywords: Compliance and fiscal policy

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.1Introduction and Background

Fiscal policy refers to changes in government taxing and/or spending. Although the primary basis of fiscal policy is the provision of public goods and services, fiscal policy also refers to government taxing and spending in order to influence economic conditions such as unemployment and inflation. This is so because government taxation will, at the end of the day, determine the amount of disposable income available to private individuals and businesses. In this regard, an increase in tax will, to some extent, reduce the money supply, thus reducing the demand for goods and services, and thereby reduce inflation (Khalo, Mafunisa, Nsingo, & Makondo, 2007:12). Employment can be affected by taxes in that a tax increases will cut into profit margins of private businesses that may then choose to offset this loss of income by retrenching the work force. The opposite can also be expected, that is, that a tax cut will provide private businesses with the extra capital needed for business expansion, which may in turn require employment creation (Mikesell, 2003:11). The key policy strategies used by governments to manage public funds are monetary and fiscal policies. Together, monetary and fiscal policy are referred to as stabilisation policies, as they are used to promote economic growth while avoiding excessive inflation or volatility in business conditions through the manipulation of such factors as tax rates and interest rates (Khalo , Mafunisa, Nsingo, & Makondo, 2007:12).

1.2 The importance and objectives of fiscal policy

Black, Calitz and Steenekamp (2012: 285) argue that the government uses the two macro instruments which are taxation and government spending to be able to provide services such as health, education and social welfare to the people. The aim is to achieve a sustainable economic growth, to create jobs for economically active population, to achieve price stability, to promote equal distribution and lastly to alleviate poverty among the citizens within the country.

According to Satija (2009: 653), the objectives of fiscal policy are:

- To mobilise the resources to be able to finance the development programmes in the public sector, using fiscal policy to promote investment and avoid wasteful expenditures.
- To promote the economic development in the private sector by provision of subsidies to help them expand their production.
- To optimally utilise the resources by using strategies that helps to use scarce resources to achieve maximum output both in the public and private sector to accelerate economic growth and development. This action thus aims at increasing the capacity of service delivery to enhance the standard of living of the people.
- To restrain inflationary pressures in the economy to ensure economic stability. The government ensures that it remains within the inflation target range between 3 and 6 %.The last one is to distribute income and wealth equitably and fairly to lessen inequality among the people, whereby the old age people and children are given grants and progressive income tax is used to those who are working, with a rule that the more a person earns the more they pay tax (Satija, 2009:653)

1.3 Operations/Dimensions of fiscal policy

Operation of automatic stabilisation with the contraction of economic activity in 2009 and the widening of output gaps, revenues declined and expenditure increased worldwide due to cyclical effects (Baunsgaard & Symansky 2009). Most countries allowed these automatic stabilisers to operate fully. In advanced economies, where the contraction in output was more pronounced, governments are larger and a greater share of public expenditure is directly related to the economic cycle, for example the provision of unemployment benefits. In these countries, the contribution of automatic stabilisers was generally higher than in the emerging economies.

Fiscal policy transparency in government operations has several dimensions. First, at an aggregate level, transparency requires the provision of reliable information on the government's fiscal policy intentions and forecasts. Second, detailed data and information are required on government operations including the publication of comprehensive budget documents that contain properly classified accounts for the general government and estimates of quasi-fiscal activities conducted outside the government. The third dimension consists of mainly behavioural aspects, including clearly established conflict-of-interest rules for elected and appointed officials, freedom-of requirements, a transparent regulatory framework, open public procurement and employment practices, a code of conduct for tax officials, and published performance audits. In all the three dimensions, fiscal transparency is closely associated with the successful implementation of good government. Villafuerte and Murphy (2009) argue that, the overall fiscal balance, the more widely used fiscal indicator, is useful to assess the government's net financing requirement (or accumulation of net financial assets) and fiscal vulnerability.

1.4 Fiscal policy in South Africa

According to the African Economic Outlook (2012), two years before the 2009 recession, South Africa adopted a counter-cyclical fiscal policy stance, which favoured expanded public spending during economic slowdown and *vice versa*. Fiscal policy thus became expansionary from 2009 onwards and remained so amid the continued weakness in the global economy and the fragile domestic recovery. Broadly, South African fiscal policy is guided by three principles: long-term public debt sustainability, counter-cyclicality, and intergenerational equity. As investment in network infrastructure (energy, transport, and information, communications and technology (ICT) remains central to government's development plans, public sector spending on infrastructure reached 7.5% of GDP during the first half of 2011 and is expected to rise further to 7.8% of GDP during the next two years, gradually declining thereafter. The bulk of infrastructure investment was accounted by state-owned enterprises, particularly Eskom (electricity) and Transnet (transport). Improvements in public service pay and increases in employment raised the wage bill to 12% of GDP, or 42% of government revenue, up from 31% in 2008, making it the fastest growing component of current expenditure.

The budget deficit declined significantly from 6.3% of GDP during fiscal year 2009/10 to 4.2% during 2010/11, as a result mainly of restraint in non-interest spending growth and a modest improvement in tax revenue, before widening slightly to 4.8% of GDP in fiscal year 2011/12, as growth in national government spending, underpinned by higher current payments together with transfers and subsidies, exceeded the moderate growth in revenue collection. The deficit is expected to fall slightly to 4.4% in 2012/13 and to 4.2 in 2013/14, chiefly because of moderation in primary pending growth. The primary deficit declined substantially from 4.0% in2009/10 to 1.8% in 2010/11. Total government revenue for 2012/13 is estimated at ZAF 905 billion, or 27.4% of GDP, while total government expenditure is put at ZAF 1.1 trillion, or 32% of

GDP, for the same year. The fiscal stance is expected to remain moderately expansionary for 2012 and 201(African Economic Outlook, 2012).

Budget Review South Africa (2014) indicates that South Africa's fiscal framework is grounded in a sustainable, counter cyclical approach to managing revenue and expenditure. Over the medium term, government will balance continued support for economic recovery with fiscal consolidation. Key social and economic programmes will be maintained, complemented by efforts to improve value for money. Spending will be well contained over the medium-term expenditure framework (MTEF) period.

The National Treasury has taken several complementary steps to support spending efficiency which include:

- Cost-containment measures announced by the Minister of Finance in October 2013 limit expenditure on conferences, travel, entertainment and other non-essential items. The measures were issued through a National Treasury instruction in January 2014. Departments will be audited on these measures and the preparation of annual financial statements.
- The National Treasury, in partnership with the Department of Performance Monitoring and Evaluation, has launched a series of expenditure reviews. The reviews aim to provide greater understanding of performance and identify ways to improve value for money in housing, education and industrial policy. The National Treasury and its provincial counterparts are working together to identify inefficiencies and improve targeting of provincial expenditure.
- The Chief Procurement Officer is building a national system for the purchase of high-value goods and services commonly used across government. Reforms will simplify procurement procedures, strengthen accountability and improve government's ability to detect corruption and maladministration.

- Forthcoming regulations will strengthen the National Treasury's oversight of public entities by requiring them to comply with stringent reporting requirements for expenditure, revenue and performance.

The Constitution of South Africa Act (1996) requires that nationally raised resources be shared between national, provincial and local government. Local government's share of the division of revenue continues to grow more quickly than the provincial and national shares. This reflects increases in the local equitable share, largely to finance free basic water and electricity at municipal level. Conditional grants to provincial and local government have been revised downwards because spending capacity has not kept pace with budget allocations, leading to under spending, particularly on capital grants. Local government borrowing remains very low. Many local governments have weak balance sheets and have yet to develop reliable systems for collecting their own revenue, making them increasingly reliant on grants to fund capital expenditure. While several large cities are able to access capital markets, many are nearing their prudential debt limits. Government remains committed to counter cyclical fiscal policy. The fiscal stance maintains an expenditure ceiling, supported by policies to improve spending efficiency. Together with an improving revenue outlook, fiscal policy balances sustainability with continued support to the economy.

1.5 Problem statement

The government monitors and implements fiscal policy (Calmfors, 2011:5). There has been a trend towards increased government debt in most countries. This has led many observers to conclude that modern democracies suffer from an inherent deficit bias and a tendency to excessive accumulation of government debt. This can lead to deficit bias.

Politicians are acting in their own interest rather than in the interest of the electorate (von Hagen, 2010). This can occur through rent-seeking behaviour in a wide sense (including, for example, prestigious projects with little value for society or benefits to the own constituency and various interest groups). It is made possible to the extent that lack of fiscal transparency or insufficient knowledge on the functioning of the economy on the part of voters makes it difficult for them to efficiently monitor the behaviour of politicians. According to one version of the argument, rent-seeking behaviour can together with fiscal capacity lead to procyclical policy, because voters demand more government consumption and lower taxes in good times to prevent higher tax revenues from being wasted on political rents (Alesina, Campante & Tabellini, 2008). A related argument focuses instead on political business cycles: the voters' difficulties of evaluating macroeconomic outcomes give incumbent governments an incentive before elections to signal their competence through deficit increasing measures that boost the economy in the short run (Andersen & Westh Nielsen, 2010).

There is short sightedness in the sense that too little weight is attached to the future. An obvious explanation is that the political parties in power may have a higher discount rate than the electorate because some of the future costs of current deficits will be borne by other parties if the current government is not re-elected. This presupposes that the preferences of politicians are not perfectly aligned with those of the electorate. A possible explanation is that political parties represent different constituencies with differing preferences regarding the composition of government spending or the trade-off between taxes and government spending. This may create an incentive for the party in power to accumulate debt for the strategic reason to constrain the policies of future governments with different preferences (Alesina, 2008).

There is time inconsistency, which means that policies that are optimal ex ante are no longer so ex post. The implication is that governments may initially decide plans on fiscal restraint but later renege on them. One explanation is that optimal fiscal policy depends on the private sector's expectations of policy which influence its behaviour. For example, it makes sense for a government ex ante to induce expectations of low inflation, resulting in low wage increases, but ex post, once this has been done, to pursue more expansionary fiscal policy to reduce unemployment, which can then be achieved at a lower cost of inflation than would otherwise be the case. But if the private sector realises this, expectations never adjust to the government's announced plans and the economy ends up in a bad equilibrium with high deficits (Andersen, and Nielsen, 2010). Similarly, even if governments in advance rule out support to financial markets to reduce moral hazard problems, support is likely to be deemed optimal once irresponsible behaviour has caused losses involving systemic risks, which undermines the credibility of an announced non-accommodation policy. Time-inconsistent policy could also be the result of time-inconsistent preferences, implying that people (and thus governments) are more impatient when they make short-run trade-offs than when they make long-run ones. Ex ante rates of time preferences may then motivate a certain pace of deficit reduction in the future, but once the future arrives decision makers could find themselves more impatient (with a higher rate of time preference) than initially and therefore choose to postpone the deficit reduction (Annett, Decressin & Deppler, 2005).

Another problem is the common-pool problems, which arise because government spending is usually targeted on individual groups, but financed out of general taxes. Individual groups therefore lobby for spending on their preferred programmes without considering the full budgetary costs now as well as in the future. This can lead to both overspending and excessive debt accumulation for the same reasons as the absence of clearly defined property rights over natural resources can lead to overexploitation of them (Fatás & Mihov, 2010). A special case of the common-pool problem is wars of attrition over budgetary consolidations. They imply that, in a situation of unsustainable deficits, each group in society and the political party representing it tries to postpone the necessary fiscal adjustment in the hope that the burden of adjustment can be shifted on to other groups (Burda & Gerlach, 2010).

According to (Khan 2012), capacity to spend and the external environment remains a concern. Capacity to implement South Africa's planned infrastructures spend is, however, still an issue. In the past, the lack of capacity to deliver on spending plans was often a key factor behind 'improved' deficit outcomes, relative to spending projections. Finance Ministry data indicating that only 68% of the allocation to the capital budget in the last year was actually spent, suggests that the problem is back. Going forward, a conscious effort to tackle this will be put in place, with under-spenders risking the loss of their budget allocations. An improving domestic growth backdrop, despite external uncertainty, is a key factor behind expectations or a more favourable deficit performance in South Africa in FY13, despite the downward revision to the 2012 GDP forecast. Higher-than-targeted inflation should also help lift nominal growth, and revenue collection as well. Nonetheless, there is little doubt that the prospect of a renewed deceleration in global growth has been partly responsible for the adoption of a faster fiscal consolidation course in South Africa. The need to rebuild the country's fiscal buffers will be seen as more urgent, given global risks.

It is from these background problems that the researcher undertook this study to evaluate and analyse the situation in local government on how fiscal policy is implemented and its impact on the society, especially where budget is concerned.

1.6 Aim of the study

The aim of the study is to analyse the compliance to Fiscal Policy in the North West Province: The case of the Department of Local Government and Human Settlement.

1.6.1 Research Questions

The study seeks to answer the following questions:

- What are the personal characteristics of employees towards the government budget in the Department of Local Governmentand Human Settlement?
- What is the attitude of employees towards Fiscal Policy?
- What is the knowledge level of employees about Fiscal Policy?
- What is the level of compliance in the Department of Local Governmentand Human Settlement of the North West Province?

1.6.2 Research objectives

The general objective of this study is to carry out an assessment of compliance to fiscal policy in the North West Province: The case of the Department of local Government and Human Settlement.

The specific objectives of the study are therefor to:

- Identify personal characteristics of employees in the Department of Local Governmentand Human Settlement.
- Determine the attitudes of employees towards Fiscal Policy.
- Examine the knowledge level of employees about Fiscal Policy.

- Ascertain the level of compliance to the implementation of Fiscal Policy.in the Department of Local Governmentand Human Settlement of the North West Province.

1.7 Significance of the study

There is insufficient understanding among both the electorate and politicians of the long-run constraints on fiscal policy. This could include a lack of understanding of both the inter temporal government budget constraint, according to which government solvency requires that future primary surpluses are at least as large as the outstanding net government debt, and of the requirements on future policy if it is to compensate for current deficits. Lack of understanding of future policy demands seems often to be associated with over optimism", allowing more leeway than earlier) or overconfidence (underestimation of the variability of future shocks (Rogoff & Bertelsmann 2010).

The study therefore seeks to assist the government by accumulating information to have better understanding of fiscal policy. More information is needed on the proper usage of budget to avoid deficits.

1.8 Scope of the study

The study was conducted in the department of Local government of the North West Province.

1.9 Chapter Outline

Chapter 1: Introduction

Chapter one outlined the introduction to the study, problem statement, the aim of the study, research objectives, research questions, Significant and scope of the study.

Chapter 2: Literature Review

In chapter two a literature review on the topic is presented in a detailed manner. The review consists of sections that provide insight and detail on compliance of fiscal policy.

Chapter 3: Research Methodology

Chapter three describes the research design which includes the research methodology, Method of investigation, Research methodology and design, Research Methodology, Research design, Exploratory Research, Descriptive Research, Research Strategy, Target Population, Sampling Strategy, Sample Design, Research Instrument, Questionnaire Construction, The Administration of the Questionnaire, Collection of the Questionnaires, Data Collection Instruments, Data Analysis, format of the study and chapter conclusion.

Chapter 4: Results and Discussion

In chapter four, the research findings are presented, analysed, interpreted and discussed. The findings are split into four sections. The results from the analysis were checked if the primary research objective were met by the secondary research objectives.

Chapter 5: Summary, Conclusions and Recommendations

Chapter 5 discusses the conclusions and recommendations of the study. The results from the research are listed and discussed. This section determined whether the primary and secondary research objectives were in agreement. The research questions were listed and the results discussed whether the questions have been answered.

To conclude this section, the research provided recommendations and possible further investigations. The next chapter discussed the literature review.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

A review of the various literature sources that were consulted is provided. The literature review is an integral part of the research process and makes a very important contribution to almost every operational step (Naidoo, 2010: 8). This chapter discusses the views of various authors with regard to the compliance of fiscal policy in government. This review is useful for organisation managers to decide on which approaches which is best suit their organisations in complying with fiscal policy.

2.1.2 Definitions of concepts Assessment, Compliance and Fiscal Policy

2.1.2.1 Assessment

Assessment is the process of collecting and evaluating information from different sources in order to fully understand something (Phillips and Francis, 2010:74).

2.1.2.2 Compliance

Compliance is defined as the practice of following the rules and legislation that governs the institution by role players involved (Parker & Nielsen, 2011:114). Rouse (2010) clarifies the definition as a state or acts of accordance with established standards, specifications, regulations, or laws. Compliance more often connotes a very specific following of the provided model and is usually the term used for the adherence to government regulations and laws. Sometimes compliance is used as a synonym for conformance and more often connotes a similarity to the model being followed within some allowed range.

2.1.2.3 Fiscal Policy

Fiscal policy refers to the government decisions with regard to the composition of spending, revenue and borrowing to improve the economic and social standard of the country (Van Der Merwe & Mollentze, 2013: 404).

2.2 Compliance of Fiscal Policy

According to Collignon (2007:28), fiscal policy means decisions relating to the level of expenditure, taxes and their balances, and the evolution of these aggregates over time. To understand their impact, it is useful to refer to the classical distinction of the three functions of public finance in government: allocation, stabilisation, and redistribution. Some require material resources for their production, for example, hospitals, railways, government bureaucracies, and so on. Others derive simply from regulations shaped by policy decisions (Khalo et al. 2007: 12).

Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector (Fernado, 2011: 155). It is the manner in which government adjusts its tax rates and spending levels to influence and to monitor the nation's economy. It can also be defined as the use of government taxation and spending to influence the economy (Horton & El-Ganainy, 2009: 01). This policy, also known as Keynesian economics is based on the theories of John Maynard, a British economist. His theory states that macroeconomic productivity levels are influenced by government through the increase and decrease of public spending and tax levels. For example, this influence increases employment, restraints inflation and maintains a good value for money.

Compliance starts with how revenue is collected through tax. South African Revenue Services (2013:21) (SARS) in its Strategic Plan 2013/14 – 2017/18 has established four enduring core outcomes for the organisation that will serve as the foundation for all current and future strategies. The four core outcomes of SARS are to:

- Increase customs compliance;
- Increase tax compliance;
- Increase ease and fairness of doing business with SARS; and
- Increase the cost effectiveness, internal efficiency and institutional respectability of its operations.

Krugman (2009) emphasised the compliance or noncompliance of the budget rule in government spending yet another group of economists argued that the best response would be to reduce the government spending, that is, to reduce both taxes and spending. SARS is well on its way to increase custom compliance as it launched the Customs Modernisation Programme in 2009 to address the largely paper-based and labour-intensive system. The modernisation of this tax picked up momentum from 2010 and several key changes were made in 2011 and 2012 resulting in the system being largely automated (SARS, 2013:1). Tax compliance has undoubtedly increased as is depicted above in the growth in the individual tax register and returns that were filed on time. Tax evasion became a form of protest, cutting into the collection of revenue resulting in a narrow tax base and a lack of legitimacy in the eyes of the public.

South Africa, achieved these changes through internal organisational alterations that included: Recruitment of a new cadre of managers from both within and outside SARS. A campaign has been launched to provide better service to taxpayers to encourage compliance and pursuing more aggressive enforcement and collection initiatives (Isa, 2014).

Tax compliance has always been an area of concern to policy makers, tax administrators and society in general. This is mainly because tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals (Isa, 2014). Measures to improve compliance include providing excellent taxpayer services that generate better long-term outcomes such as higher tax collection and a reduction in the tax gap. The aim of tax reform in many countries is to achieve higher voluntary compliance and one way to achieve this is by introducing a self-assessment system (Palil, 2010:6).

The implementation of tax in many countries is mainly driven by three objectives, namely improving the level of voluntary compliance, reducing administrative costs and simplifying the assessment system. The crucial objective of the South African Service is to improve voluntary compliance, i.e. compliance with tax requirements in the absence of an enforcement mechanism in which they are subjected to sanctions if they do not meet the requirements. However, many taxpayers are unaware of their responsibilities, specifically in ensuring accurate returns and the consequences of submitting incorrect returns (Isa, 2014).Therefore, issues concerning taxpayer competency, honesty, capability and readiness are essential (Palil, 2010: 6). Taxpayer knowledge is crucial, as an insufficient level of tax knowledge may result in inaccurate tax returns and consequently, unintentional non-compliance

Partnerships are key for South African Revenue Service. It works with regional and local government institutions to assist their constituencies with tax matters. It reaches future taxpayers through academic institutions and schools, and it also co-operates with civic associations, private entrepreneurs, businesses and business organisations. For example, in the construction sector many sub-contractors operate informally, outside of the tax base. By working with the construction sector employers association, Master Builders SA (MBSA), SARS runs educational campaigns to improve compliance standards and disseminate legislative information to construction companies

Weakening compliance, as suggested by Brondolo (2009), compliance is likely to decline in all countries, for example, if taxpayers have lost access to other forms of financing or due to perceptions of a higher expected payoff from tax evasion. This effect may be particularly acute in countries with relatively weak tax administrations.

The budget has to be balanced or in surplus unless there are exceptional circumstances. Compliance with the budget rule is assumed if the annual structural deficit of the general government stays within the country-specific limit of its Medium Term Objective, as defined by the Stability and Growth Pact European Commission (2012).

To make compliance with the budget rule legally highly binding, the corresponding law shall be enshrined in the constitution, or in a comparable piece of legislation, and be monitored by an independent supervisory institution, i.e. a fiscal council. According to a Communication from the European Commission (2012), the fiscal council is supposed to evaluate in particular the consolidation progress and the circumstances which end, trigger or prolong emergency situations. A "comply or explain" principle ensures that the national governments do not ignore the assessments. The governments have either to follow the advice of the fiscal councils or explain why they depart.

Empirical studies have shown that budget rules can support fiscal consolidation (Feld and Kirchgässner, 2008). However, the impact of the Fiscal

Compact on public finances is not straight forward, because several legal ambiguities and loopholes exist. A constitutional anchoring of the provisions of the Fiscal Compact is only recommended, but not mandatory. An implementation into simple law offers at least two loopholes. First, the fiscal rule can obviously be altered through a simple majority in parliament. Second, a law governing a more specific matter may override a more general or older law. Rules and regulations of tax and budget will demonstrate the generation of revenue and spending easier.

According to the International Monetary Fund (2009), Africa needs more investments and fair trade to accelerate the pace of economic growth and development. While striving to maintain economic stability and fiscal prudence, African countries need to be mindful of the urgent need to advance their structural reform agendas in order to boost growth and development goals. Fiscal policy will need to be refocused on its traditional objectives of growth and debt sustainability, keeping the following in mind:

- Increasing the effectiveness of countercyclical fiscal support;
- Better cash and debt management strategy that can provide fiscal savings and safeguard debt sustainability;
- Broadening the tax base that can allow for growth-boosting reductions in the most distortionary tax rates; and
- Efficiency-enhancing tax administration reforms that can reduce both collection costs for the state and compliance costs for the private sector.

In designing fiscal policies, policymakers should also be mindful of how different types of expenditure will affect the country's external position and economic activity, especially job creation.

Legitimacy is a source of power (Collignon, 2003: 59–63). It is a necessary prerequisite for efficient fiscal policy, because without the collective acceptance of the actual choices or the general rules according to which individuals may be taxed and therefore deprived of their wealth, the optimal allocation of resources to collective preferences is not possible. Legitimacy draws on normative models of policy justification, which may lead to different institutional arrangements and policy outcomes. Eriksen and Fossum (2004) have crystallized three models of normative justification for the integration process: the problem solving entity based on intergovernmental structures of governance and legitimized on technocratic grounds; a value-based community premised on a common identity and appealing to communitarians; and a rights-based political union based on a full-fledged political citizenship (Collignon, 2003, 2004). The first model focuses on efficiency and follows an instrumental and technocratic rationality. Legitimacy depends on the ability to solve problems efficiently and on the capacity to deliver public goods that people want (Moravcsik, 2004:336).

The, intergovernmental relations and strategic interactions between governments in search of maximizing advantages for their local and partial constituencies dominate the interpretation of how policies should be defined. This approach is well suited to the allocative function of fiscal policy. If resources are efficiently allocated, welfare is maximized and the policy must be optimal in terms of delivering the collective goods desired by citizens. This interpretation necessarily assumes collective preferences as given, so that decentralized policy making is welfare enhancing if preferences are heterogeneous. This approach leads to serious shortcomings if the decentralized provision of collective goods causes significant externalities with strategic substitutability (Battaglini, Marco & Stephen Coate. 2008:201).

First of all, the welfare-enhancing aspect of a problem-solving capacity is to deliver the desirable public goods to the people as a whole decreases and output legitimacy diminishes. As the number of decision-makers increases, collective action problems become more salient, at least in the domain of exclusive collective goods. As a consequence of output legitimacy in problem-solving, government tends to eliminate itself. Because efficient policy output is the only source of legitimacy, there is no other criterion whereby the inflation of potential decision-makers could be contained (Moravcsik, 2004:336).

2.3 Theoretical Perspectives

Fiscal policy is based on the theories of British economist John Maynard Keynes. Also known as Keynesian economics, this theory basically states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence, in turn, curbs inflation, increases employment and maintains a healthy value of money (Talvi, Ernesto & Carlos Végh 2005:156).

The idea, however, is to find a balance in exercising these influences. For example, stimulating a stagnant economy runs the risk of rising inflation. This is because an increase in the supply of money followed by an increase in consumer demand can result in a decrease in the value of money - meaning that it will take more money to buy something that has not changed in value (Mikesell, 2003:11).

For fiscal policy to achieve macroeconomic stability, the idea of the budget deficits could make a positive contribution to stabilisation and growth. Budget policies are considered ineffective with respect to “real” economic variables, but they could cause inflation in the long run. However, if consumers do not internalize the future tax implication of current deficits (assuming “future generations will pay for them”), budget deficits do matter for stabilisation. Thus, the nature of expectation is crucial for explaining the effects of fiscal policy, although fiscal *discipline* was always seen as necessary to ensure monetary and financial stability. This could be achieved by binding fiscal rules. Institutions for the active pursuit of macroeconomic stability were not deemed necessary (Mankiw, Gregory, Matthew, Weinzierl & Yagan, 2009:147).

The inability to find a satisfactory way of formulating discretionary fiscal policy as an implementable rule and a set of practical institutions to support that rule (especially in a regime of floating exchange rates) had made them skeptical of attempts to use discretionary fiscal policy to stabilize the business cycle (ECB, 2004). The stabilisation policy increasingly centered is on monetary policy. However, fiscal policy has not disappeared from the agenda and in recent years a new consensus has emerged. It favours balanced budget rules, but recognizes that the operation of automatic stabilizers (changes in government revenue and expenditure that arise automatically from fluctuations in economic activity) can smooth the business cycle. Discretionary demand management is to be avoided, as automatic stabilizers introduce sufficient flexibility into rule-based policies, but fiscal policy is acceptable for supply-side purposes, such as improving the potential growth rate, covering pension liabilities, creating labor market flexibility, and so on (ECB, 2004). Thus, automatic stabilizers can contribute to the efficiency and stability of macroeconomic policy, while discretionary supply policies should reflect more fundamental collective policy choices by allocation, Redistribution and Stabilisation.

2.3.1 Allocation of resources

The allocation function deals primarily with stabilisation and distribution. By allocating resources to different uses in accordance with consumers' preference rankings, their welfare is maximized. Welfare and efficiency are both defined by the utility function (the index of individual and collective preferences over a range of applications). What counts as collective utility is a matter of consensual agreement. The statement about efficiency does not claim any particular distribution of outcomes. That is the result of the initial distribution of resources. It is not possible to achieve greater utility with the given resources. Neoclassical economics claims that markets tend to secure optimal economic efficiency. Because integration is based on market building by removing obstacles to trade, the allocation issue has near constitutional status. By integrating fragmented markets, allocative gains in income and welfare can be obtained (Altomonte & Nava, 2005:33).

2.3.2 Redistribution function of resources

With redistribution function, the theory of fiscal federalism advocates its implementation at the central level. The main reason of implementing redistribution function at the central level is the problem of mobility of production factor caused by the harmful tax competition, and including a wider tax base by taxing at the central level. In this way the theory gave principles which should be applied when giving roles to certain taxes at different levels of government and also negative effects which could appear in case of non-implementation of redistribution function at the central level. The fiscal federalism studies the redistribution at the local level as a local public good. As long as the redistribution is done efficiently at a lower level of government, it should not be moved to the central level. The basic question in the context of the government is how important is the issue of mobility (European Commission, 2006).

2.3.3 Stabilisation of fiscal policy

Stabilisation policy is a policy of government that is aimed at maintaining moderate to low levels of unemployment and inflation, whilst stimulating economic growth. The two board categories of stabilisation policy are fiscal and monetary policy (Khalo, et al. 2007:11).

While with allocation and redistribution function of public finance it is possible in some cases that the theory suggests their implementation at lower level of government (subsidiarity principle), with stabilisation function this is not the case. Primarily because of economic efficiency and internalization of external effects its implementation is recommended to only at the central level. The most important deviation from the theory of fiscal federalism is in the fact that the stabilisation fiscal policy is almost completely implemented from the lower levels of government. There are several reasons for this which includes the fact that the budget is relatively small to create any significant stabilisation effects in government (Mikesell, 2003).

2.4 The impact of fiscal policy compliance

Lewis, (2010) states that living with high debt, would reduce the capacity of fiscal policy to respond to future shocks. High debt would likely lead to high real interest rates. Fiscal rules are the vogue solution to rising debt and irresponsible fiscal policy. The problem is that no Parliament can bind a future Parliament. For a rule to work, future politicians must be as committed to it as those who pass it today. But, if they were so committed then the rule would be unnecessary, the politicians of the future would act as if it were in place of their own accord. Recent history demonstrates that that is not the case.

The current fiscal framework is in need of radical reform. For many decades, governments have failed to stick to plans to return to surplus. Instead, a "debt ratchet", meaning, intensifying or increasing debts which, has built over time. In good times the government saves little, yet in bad times it spends a great deal. This allows debt to build. The legacy of this failure to save in the good years cost the Government when recession struck. The root of the debt ratchet is the failure of politicians to commit to save in the good times. Despite their promises of fiscal prudence and surplus, few have delivered. There are a number of features that are theorised to cause the problem. Poor forecasting has allowed politicians to commit to a surplus that never materialises; short term pressures on politicians have seen numerous managers in government fail to meet the targets they set themselves. Rising debt and a persistent, structural deficit are not simply reflective of poor fiscal management: They have real economic costs. High debt is a problem for the economy because it restricts the government's ability to respond to crises with fiscal policy. In particular, it hinders the managers from enacting temporary fiscal stimulus to absorb the shock to the economy (Debrun, Hauner & Kumar 2009:14).

Kumar, (2009) emphasises that the path of least resistance is merely to open the fiscal policy process up to scrutiny from the outside. Lack of public understanding of the state of the public finances, and the implications of different fiscal policies, allows governments to raise tax or spend more, at the expense of long term fiscal sustainability. By opening up the conduct of fiscal policy to public scrutiny, unsound government policies become harder to justify to the electorate. Greater transparency and public accountability has therefore been a prerequisite for fiscal discipline across all countries.

2.5 Chapter Summary

Chapter two focussed on the literature review. The definitions of concepts were provided to make the literature more clear and understandable. The discussion was based on the compliance of fiscal policy which included tax and budget rules compliance and the debt ratchet. Literature suggests that government should concentrate on generating funds for the state by means of tax as well as spending to be able to allocate resources, redistribute and stabilise the economy. The next chapter focuses on the research methodology, collecting data and analysis.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on clarifying the methods of data collection and analysis. The purpose of the chapter is to reflect the research questions, research approach and research design, research methodology, target and the population to the study, the research sample, the sampling technique employed and data collection methods. Data analysis procedures and technique are also explained.

3.2 Study area

According to the Annual Report of 2014, a number of posts with Human Resource Section, 443 posts were approved but only 344 posts are currently filled.The Department of Human Settlement, Public Safety and Liaison and the Department of Local Government and Traditional Affairs were combined and re-organised into the Department of Local Government and Human Settlement after the May 2014 elections.

The purpose of the North West Department of Local Government and Human Settlement is to effectively plan, coordinate, provide and support the development of habitable integrated human settlement in the province. The Department's strategic goals are to ensure provision of effective and efficient administrative support and direction to the Department; ensure effective and efficient research, policy development, planning, monitoring and evaluation; and ensure provision of habitable and sustainable human settlements.

3.3 Research design

The research design used in this study was quantitative research and one of the steps in this process is research design. The approach of the design used was a survey research which comprises of cross sectional design. Data was collected predominately by use of research instrument of self-administered questionnaire at a single point in time in order to collect a body of quantitative data.

3.4 Study Population

The population for this study comprises of officials who are planning and implementing the fiscal policy from different sections of the Department of Local Government and Human Settlement in the North West Province. The establishment document from the Human Resource section indicated that the Department has a population of 344 employees.

3.5 Sample Procedure and Sample Size

The population that was involved in this study includes only officials involved in planning and implementing of the fiscal policy; ten (10) officials from Supply Chain Management; ten (10) from Finance; ten (10) from Human Resource; ten (10) from Cooperate and five (5) from Housing subsidies. From these sections, 45 officials were selected as the sample for the study.

For this study, 45 staff members were from different sections of the department. A total number of sample was N=45 respondents selected using the random selection method backed up by a participative criterion, which is also referred to as purposeful sampling. De Vos et al. (2010:196) state that, the larger the population the smaller the percentage of the population should be included in a sample. In this case the total 45% is suggested. According to

Welman, Kruger and Mitchell (2010:58), in random sampling, each member of the population has the same chance of being included in the sample and each sample of a particular size has the same probability of being chosen.

3.6 Data Collection

A questionnaire was developed as presented in appendix A. For the Department of Local Government and Human Settlement and administered by the researcher. The questionnaire was divided into three sections. The questionnaire was presented in a Likert - type scale in Section 2 with 30 items of true and false. Section 3 with 30 items of Strongly Agree; Agree; Uncertain; Disagree Strongly and Disagree; Section 4 with 30 items of Compliance and Not Compliance.Data were collected with structured questionnaire on personal characteristics, knowledge of fiscal policy, attitudes towards fiscal policy and compliance with fiscal policy.

3.7 Validity and reliability

The validity and reliability of the variables were assessed using the item reliability, construct reliability, and average variance extract, together with Cronbach's coefficient alpha. The results of the reliability testing highlights that the instrument utilised and the questions were reliable, valid and trustworthy at .746 Cronbach's coefficient alpha, which according to the internal consistency is a good measure.

3.8 Data Analysis

Data was obtained through questionnaires. The first step was to analyse especially when they relate to responses to open-ended questions. The researcher ensured that all relevant questions have been answered and there was a follow up where the respondents did not understand or need clarification. The sections were analysed using SPSS programme were; Section A: Demographic Information; Section B: 2: Knowledge of fiscal policy, Section B: 3: Determine attitude towards fiscal policy, and Section B: 4: Ascertain the level of compliance implementation of Fiscal Policy in the Department of Local Government. Data were described with frequency counts. The responses were coded to facilitate entry into computer. All questionnaires received for this study were coded before inputting into an SPSS soft package. Variables were categorised so as to facilitate several items measuring a particular concept being grouped together. Data from this research was entered manually using a software package. The results from the data analysis were summarised into 18 figures which represented personal characteristics.

3.9 Ethical Procedure

The first step the researcher did was to obtain permission from the Department of Local and Traditional Affairs to conduct research. The researcher completed forms of ethics from the North West University for Compliance. Questionnaires were then distributed to the Department of Local Government and Human Settlement, administered by the researcher. The response and results were treated confidential. No respondents were forced to answer questions and were ask not to hesitate to contact the researcher for more information and clarification.

3.10 Chapter Summary

This chapter focused on the methodology. The quantitative research design was used, Study area of the Department of Local Government and Human Settlement, Study Population, Sample Procedure and Sample Size, Data Collection, Validity and reliability, Data Analysis and Ethical Procedure. The next chapter presents the results, discussion and interpretation of findings of the study.

CHAPTER FOUR:
RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents results obtained by a questionnaire administered to employees of the Department of Local Government in the North West Province. The data from the questionnaire is presented and analysed in the order of the research objectives presented earlier in chapter one. The questionnaire was divided into the following three sections namely;

Section A: demographic section consists of response rate and biographic analysis. Biographic analysis is further subdivided into gender, age group, job status, highest qualification and number of years employed at the Department of Local Government, years of work experience, division the employee is working in, duration the employee have been working in this division, number of subordinates the employee has, home language, ethnicity, whether the employee belong to a professional board, experience in formulating financial policies, whether the employee is involved in budget decision-making, experience in strategic planning, experience in budgeting processes, experience in safeguarding of assets and lastly experience in project monitoring .

Section B: this section mainly measures the knowledge on fiscal policy in terms of budget processes, determines attitudes towards fiscal policy and lastly ascertains the level of compliance of fiscal policy in the Department of Local Government.

4.2 Section A: Demographic Information

4.2.1 Response rate

The total number of questionnaires distributed to respondents was 45 the questionnaires were administered in the Department of Local Government in the North West Province. Out of the total of 45 questionnaires distributed, 37 were completed and returned. This is a 93% response rate.

4.2.2 Biographic information

This section depicts the personal data of the respondents.
Figure 4.1 illustrates the gender of respondents in the Department of Local Government.

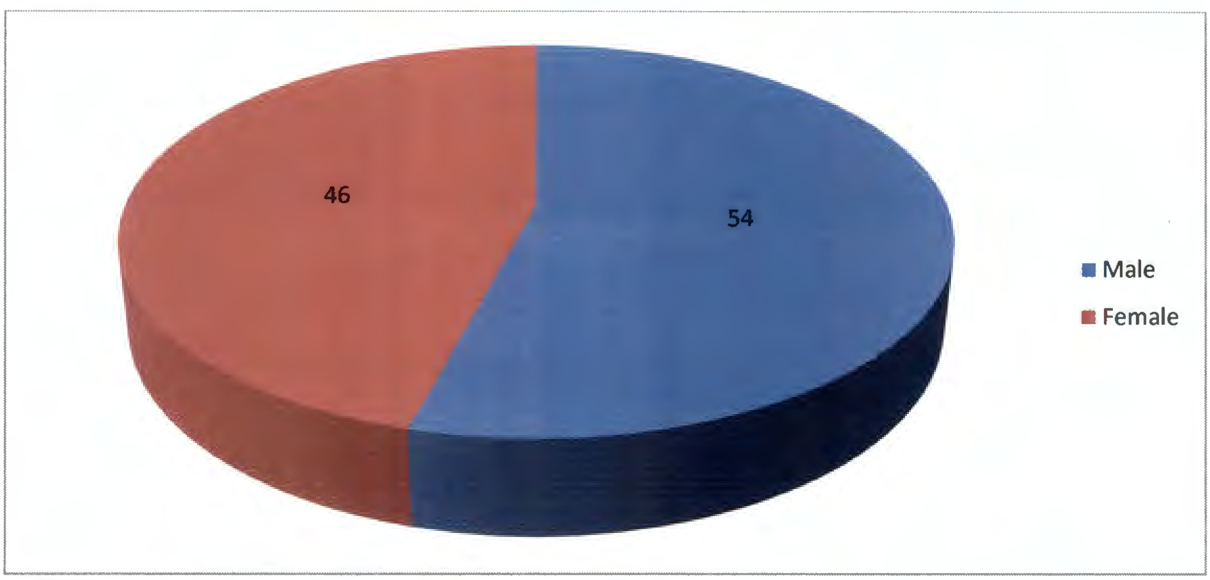

Figure 4.1 Gender distributions of respondents

Figure 4.1 depicts that of the respondents, 54% were males and 46% were females. This implies that there are more male responsible for fiscal policy in the study area. This might be due to males dominating the financial qualifications in the country, and their female counterparts slowly taking qualification in fiscal policy. This agrees to the findings of Moloi (2008) who states that despite the gains that have been made with respect to gender equality, the redistribution of resources and power has not shifted the gender disaggregation. According to the report on Employment Equity and Gender Transformation Report for the North West Province (2011), South Africa can demonstrate a strong political commitment to gender equality and transformation in the workplace, owing to comprehensive legislative framework and appropriate policies; yet, the evidence indicates that progress on gender equity has been very slow.

Figure 4.2 illustrates the age groups of the respondents in the Department of Local Government.

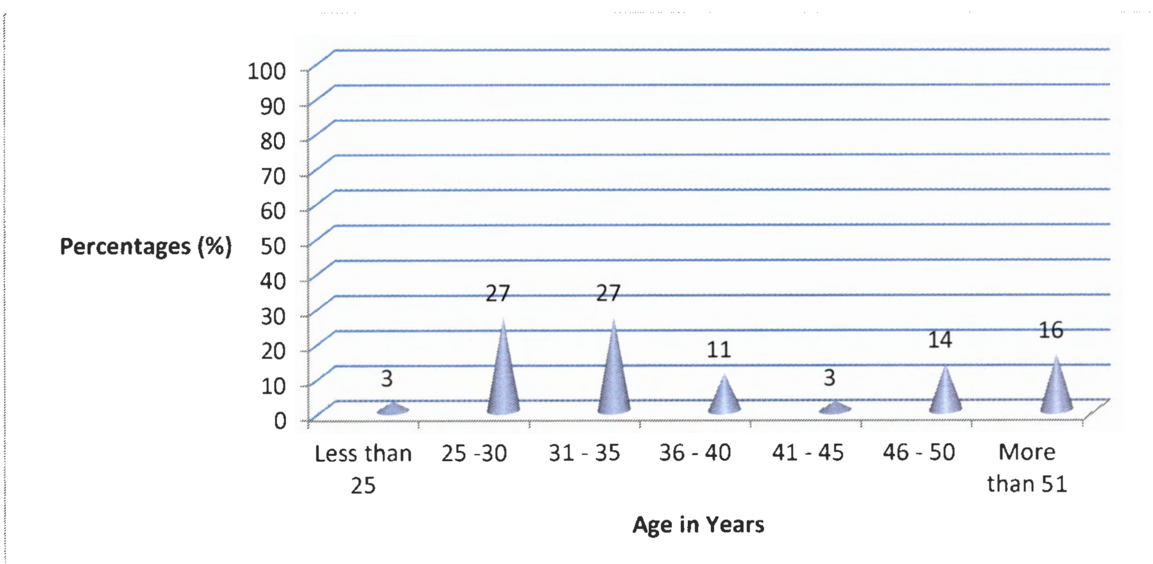

Figure 4.2 Age groups of respondents

Figure 4.2 shows that the majority of respondents were in the age groups of 25 – 30 years and 31 – 35 years and the minority were in the age groups of less than 25 years and 41 – 50 years with 3% each. This implies that most of the employees in the Department of Local Government are still young; they can still further their studies and improve their knowledge on fiscal policy. According to Moshoette and Oladele (2013), younger workers are fit and able to carry out their duties in local government, which in turn will allow them to gain experience and study further.

Figure 4.3 highlights the job status of the respondents from the Department of Local Government.

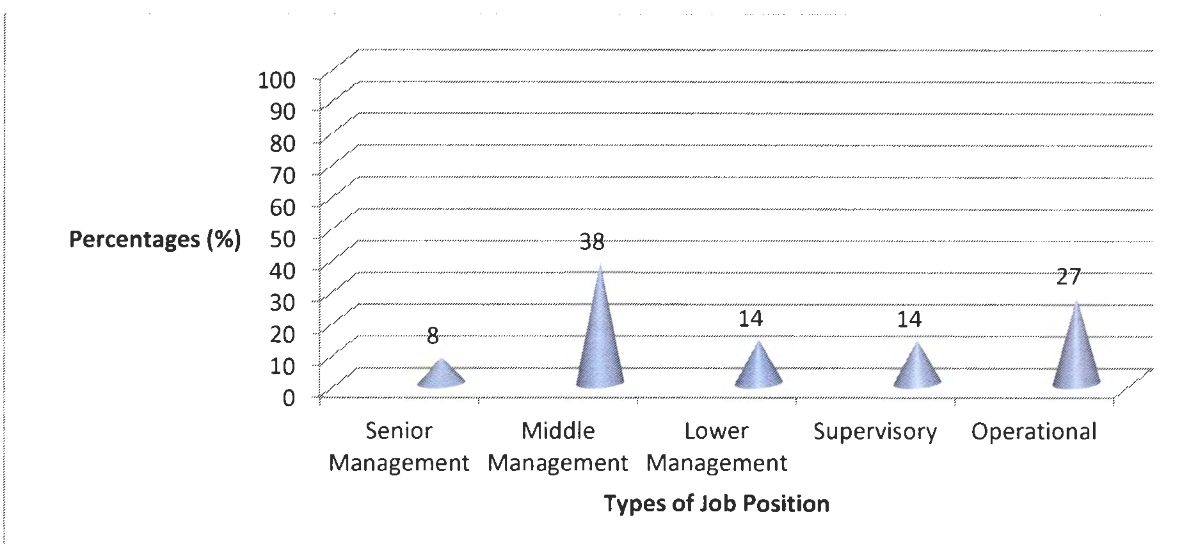

Figure 4.3 Job statuses of the respondents

As shown in figure 4.3, the majority of the respondents are those in the middle level management and the minority at senior management level. This might imply that because most of the employees are still young and fresh from university, in order to be involved in senior management positions they must gain experience in this regard. Letlonkane and Maveteral (2014) state that the majority of respondents in government are those that are in the middle management level and the minority are in senior level.

Figure 4.4 highlights the highest qualifications of the respondents from the Department of Local Government.

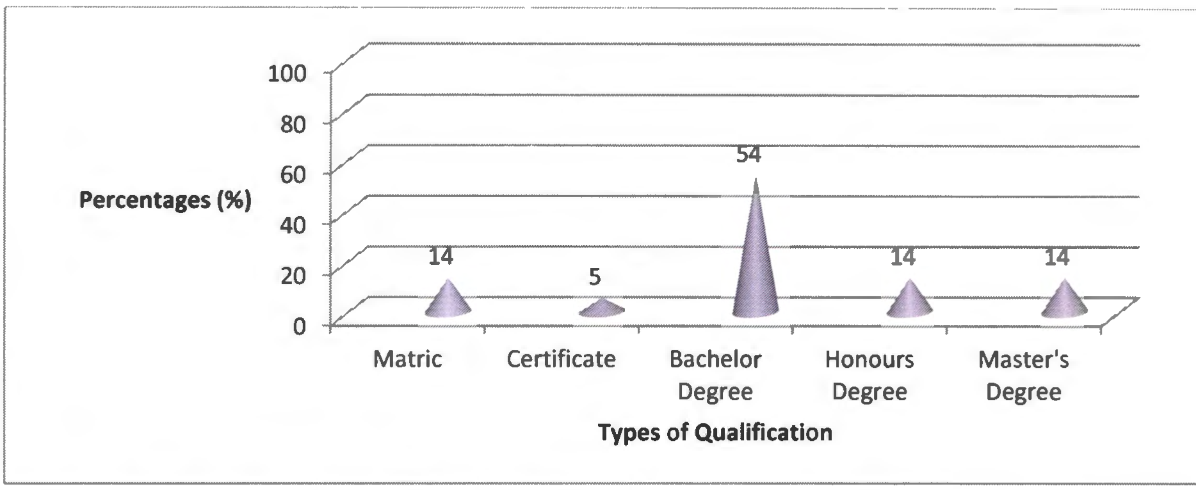

Figure 4.4 Highest qualifications of respondent

As illustrated in Fig 4.4, the majority of the respondents on this section are graduates from tertiary institutions. From the 37 responses received, 54% are respondents holding a Bachelor's Degree; 14% of the respondents are holding an Honours Degree and a Master's Degree. This implies that the majority of the respondents are educated. Therefore one can infer that the majority of the respondents have knowledge of fiscal policy. According to the Gender Report (2013), the report states that in 2001, the percentage of women and men with no schooling who were employed was higher than the percentage of women and men with less than grade 12. By 2011, the pattern had reversed and those with no schooling were less likely than those with formal education to be employed. Also, Mokhethi and Oladele (2013) state that the educational level of the respondents would enhance the process of employees' induction since their learning and understanding of important organisational value and norms, established working relationships and how to function within their jobs is greatly determined by their level of education

Figure 4.5 highlights the number of years the respondents have work at Department of Local Government.

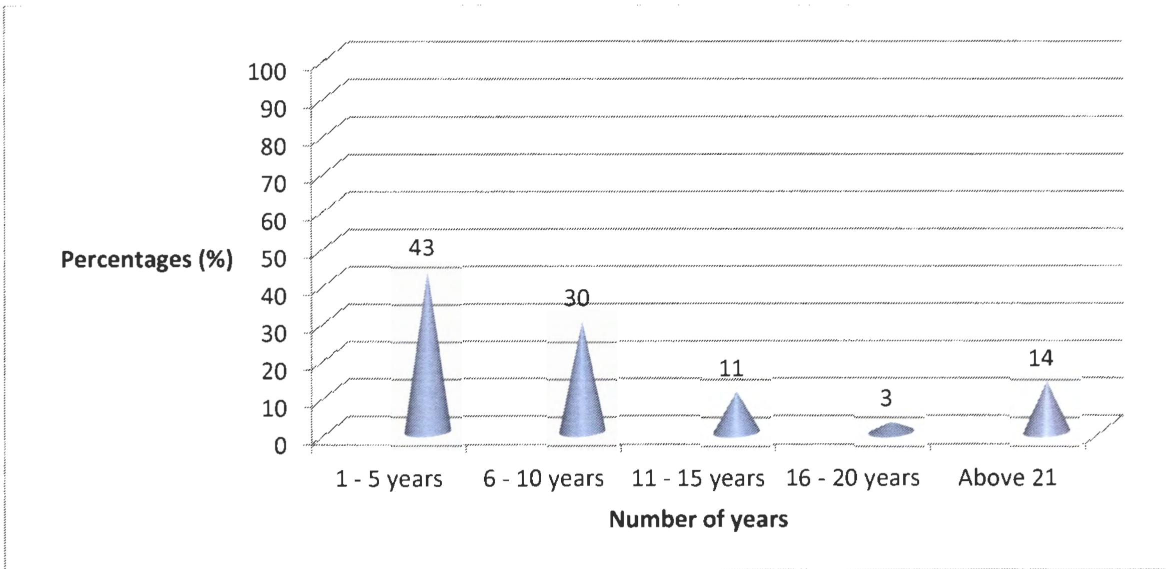

Figure 4.5 Number of years employed at Department of Local Government

Figure 4.5 reflects that the majority of the respondents (43%) have worked at the Department between 1 – 5 years, and the least number of respondents with 3% of the respondents worked at the Department between 11 – 15 years and 16 – 20 years. This implies that the majority of employees have just started working for the Department, which implies that they are inexperienced with fiscal policy. Mokhethi and Oladele (2013) state that 46% of the respondents have been working in their respective department for at least five years in local government

Figure 4.6 highlights the years of work experience of the respondents of Department of Local Government.

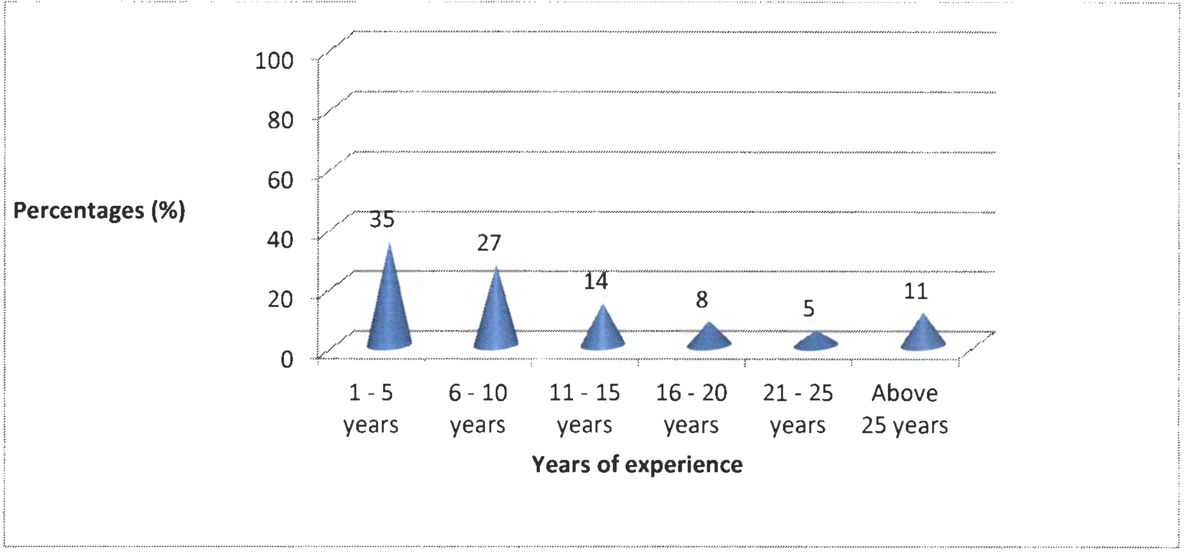

Figure 4.6 Years of work experience at the Department of Local Government

Figure 4.6 reflects that the majority of the respondents (35%) have work experience in the ranges from 1 to 5 years, and the minority of the respondents have experience in the ranges 21 - 25 years 5%. Therefore, one can infer that the respondents cannot implement fiscal policy measures at the Department of Local Government, because of lack of inexperience. According to Mokhethi and Oladele (2013), the fifty one percent of the employees also had ten years of work experience in local government.

Figure 4.7 highlights the division the respondents are working in at the Department of Local Government.

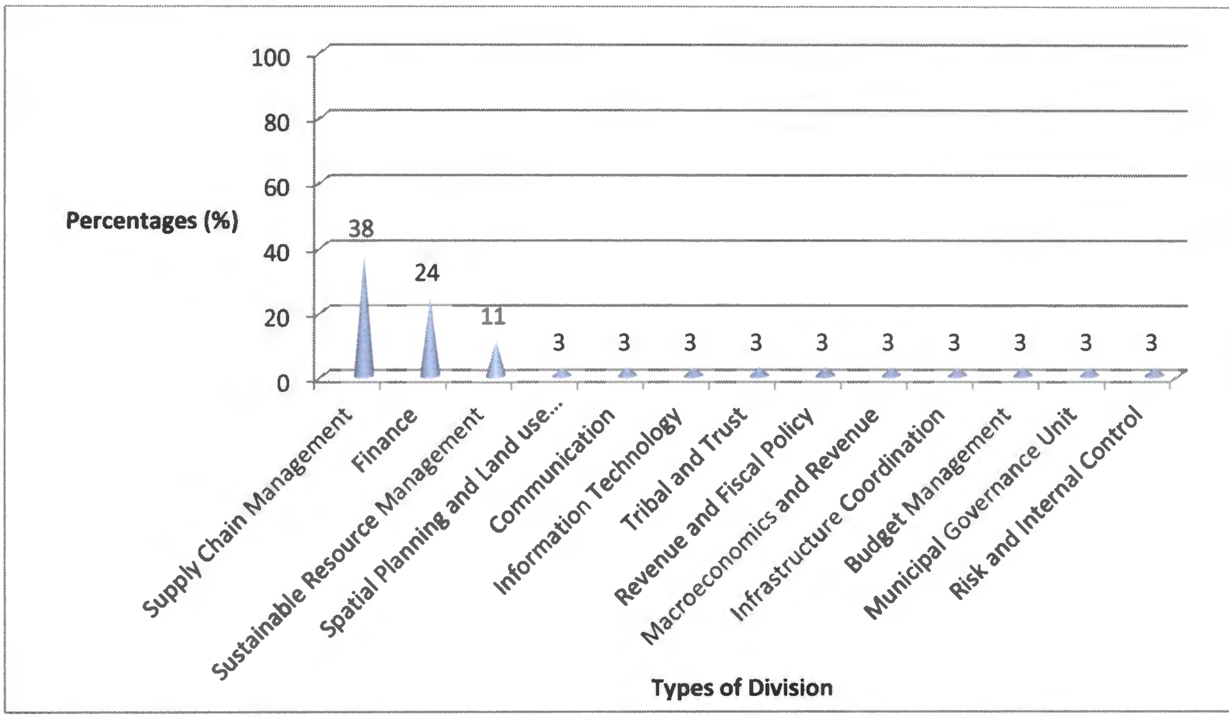

Figure 4.7 Types of Divisions in the Department of Local Government

Figure 4.7 reflects that the majority of the respondents (38%) work in the Supply Chain Management Division, and the least number of the respondents are working in the divisions such as Information technology, Spatial Planning and Land use Management, as well as Risk and Internal Control at the Department. This implies that the majority of the employees are knowledgeable in Supply Chain Management, not in fiscal policy, which implies that there is less knowledge of fiscal policy. According to Mokhethi and Oladele (2013), the majority (27%) of the respondents in the Ratlou Municipality in the North West Province were in the finance directorate in local government.

Figure 4.8 highlights the duration of time the respondents have been working in the division they are in, in at the Department of Local Government.

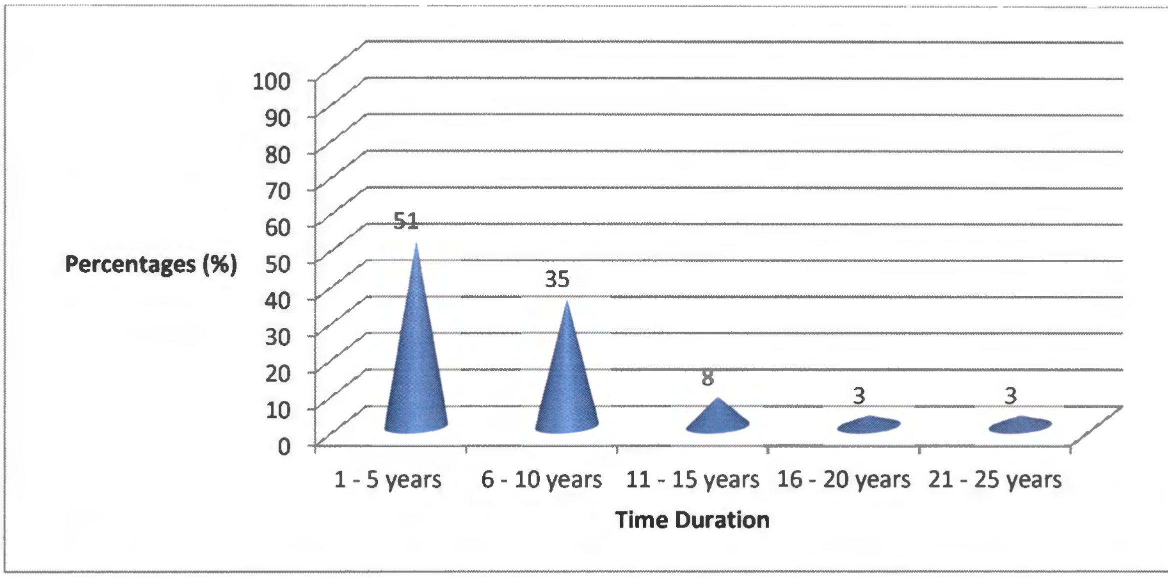

Figure 4.8 Duration of time employees worked in each division in the Department of Local Government

Figure 4.8 reflects that the majority of the respondents (51%) have been working in the current division for 1 – 5 years, and the minority of the respondents have been in their respective divisions for 16 – 20 years and 21 – 25 years, with 8% and 3%. This implies that most of the respondents have been working in their divisions for duration less than 5 years. This may hinder them from carrying out their duties. This might be due to the fact that some are new in the department, and others have been moved from other division to increase labour force in their current division. According to Mokhethi and Oladele (2013), the majority of the respondents have been working in their current division for at least less than 5 years In local government the case of Ratlou Municipality.

Figure 4.9 highlights the number of subordinates each respondent have under their supervision in at the Department of Local Government.

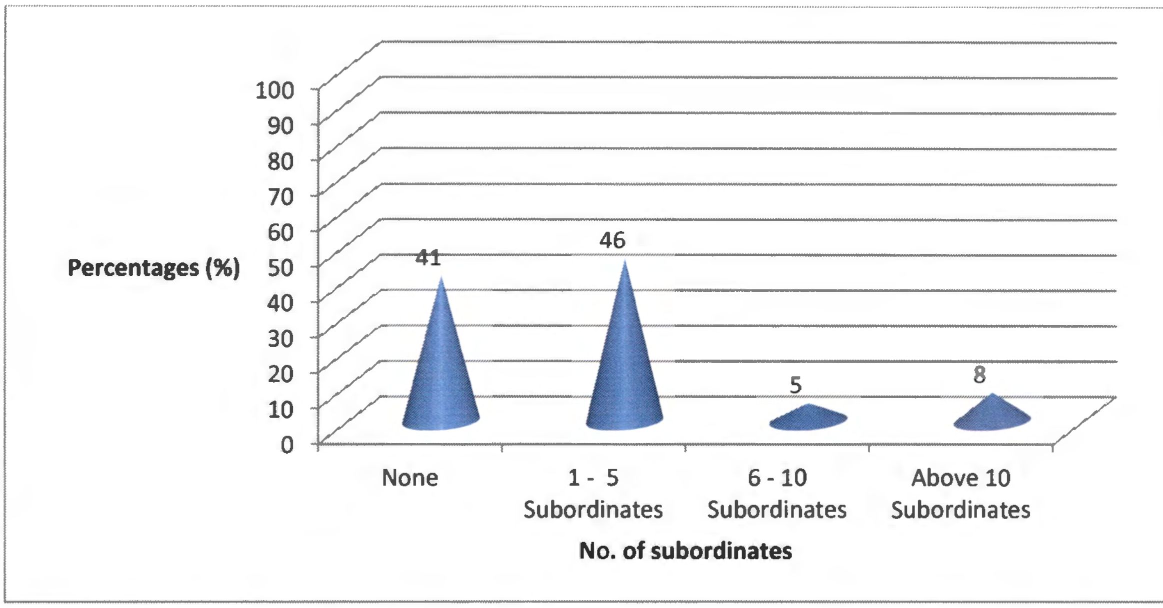

Figure 4.9 Number of subordinates per employee in the Department of Local Government

Figure 4.9 reflects that the majority of the respondents (46%) have 1 – 5 subordinates, and the minority of the respondents has above 10 subordinates and 6 – 10 subordinates, with 5% respectively. This implies that there are few senior managers in the department, because no new individuals can be allowed to have subordinates as they might not be having appropriate experience.

Figure 4.10 highlights the home language of the respondents at the Department of Local Government.

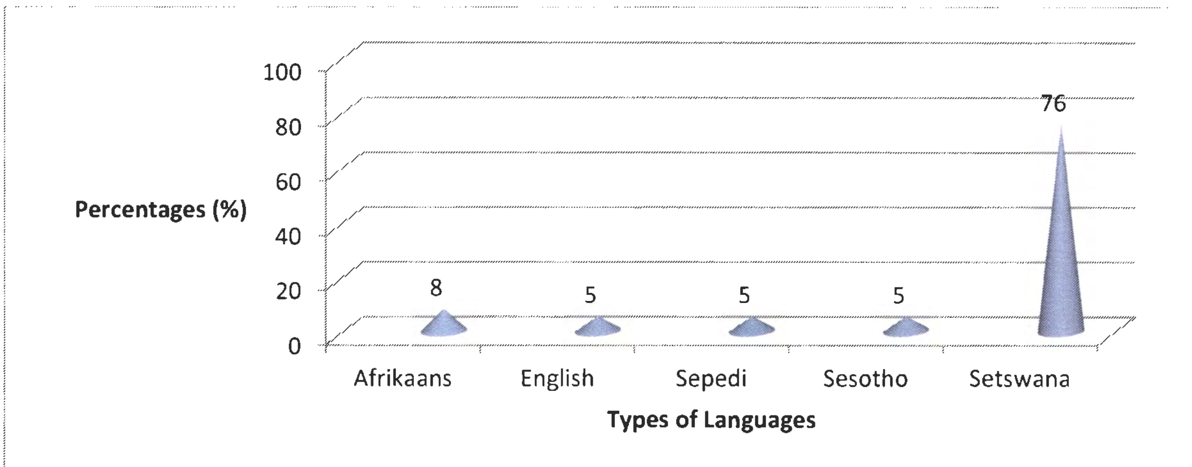

Figure 4.10 Types languages spoken by the employee in the Department of Local Government

Figure 4.10 reflects that the majority of the respondents (76%) speak Setswana in the Department, and the minority (5%) of the respondents speak English, Sepedi, and Sesotho. One can infer that the reason for this is because North West Province is dominated by African inhabitants speaking Setswana. The findings of Letlonkane and Mavetera (2014) state that North West Province is mostly inhabited by black people who speak Setswana.

Figure 4.11 highlights the ethnicity of the respondents at the Department of Local Government.

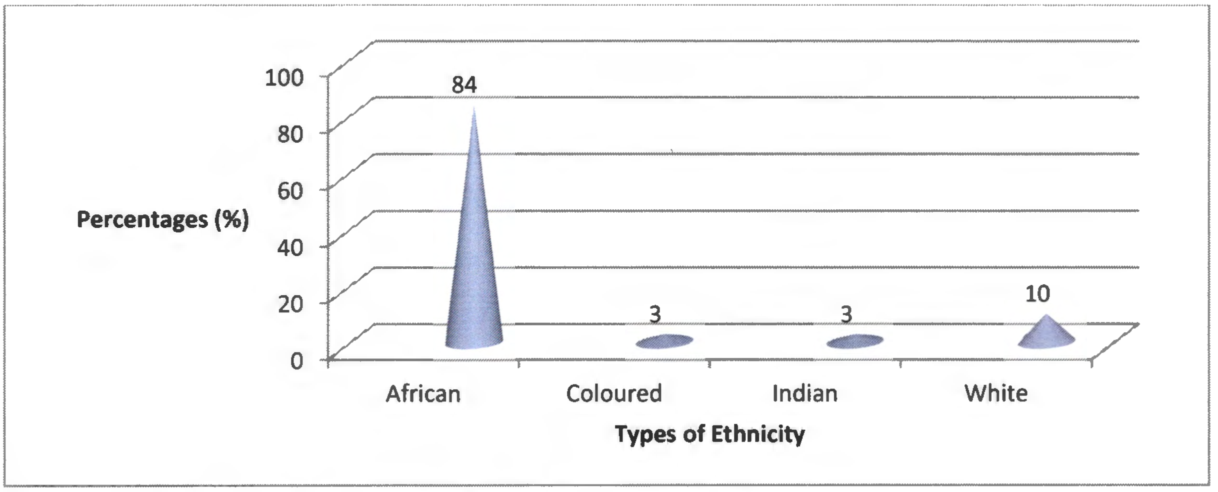

Figure 4.11 Types of ethnicities of employees in the Department of Local Government

Figure 4.11 shows that the majority of the respondents (84%) are Africans, and the minority (3%) of the respondents is either Coloured or Indian. This is because the study was conducted in Mafikeng in the North West Province, which is historically inhabited by the Africans. The findings of Letlonkane and Mavetera (2014), states that North West Province is mostly inhabited by black (African) people who speak Setswana.

Figure 4.12 highlights whether the respondents belong to any Professional Boards at the Department of Local Government.

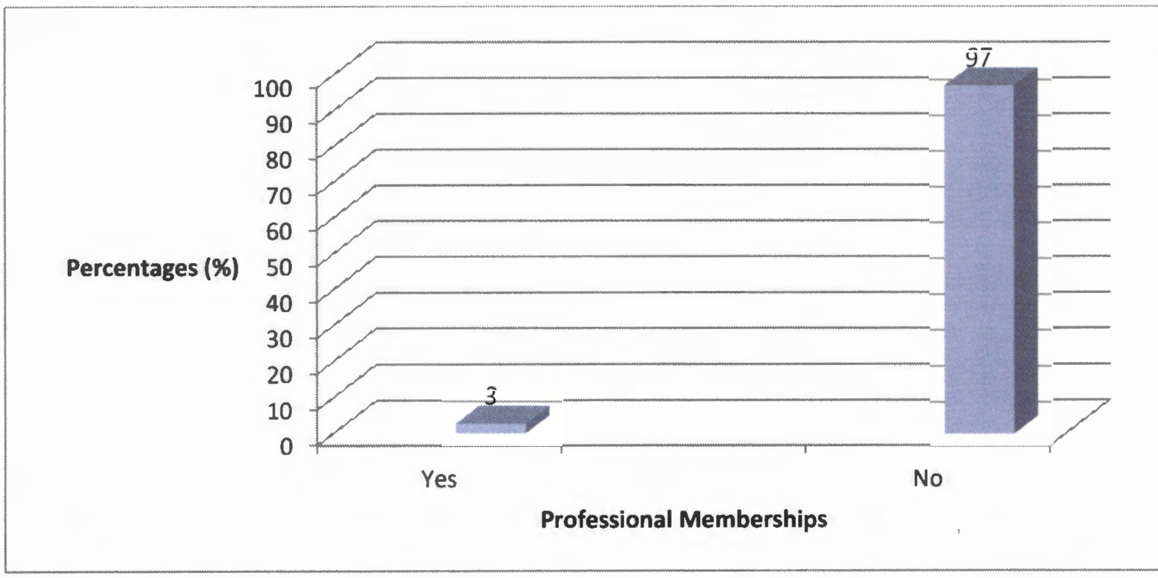

Figure 4.12 Memberships of Professional Boards in the Department of Local Government

Figure 4.12 illustrates that the majority of the respondents (97%) are not members of any Professional Boards and the minority (3%) of the respondents are members of the Professional Boards such as SAICA and CIPS. This is due to the fact that the majority of the employees are qualified to work in the Supply Chain Management division of the department, which is why they are not affiliated to any professional boards as in this profession they are not entitled to have such memberships. Results of Msimango and Oladele (2013) state that 40% of the cooperative members have 3 to 6 years of membership, 30% have 7 to 9 years membership while 30% of the participants have been members for over 10 years

Figure 4.13 highlights the experience of the respondents with regard to formulating financial policies at the Department of Local Government.

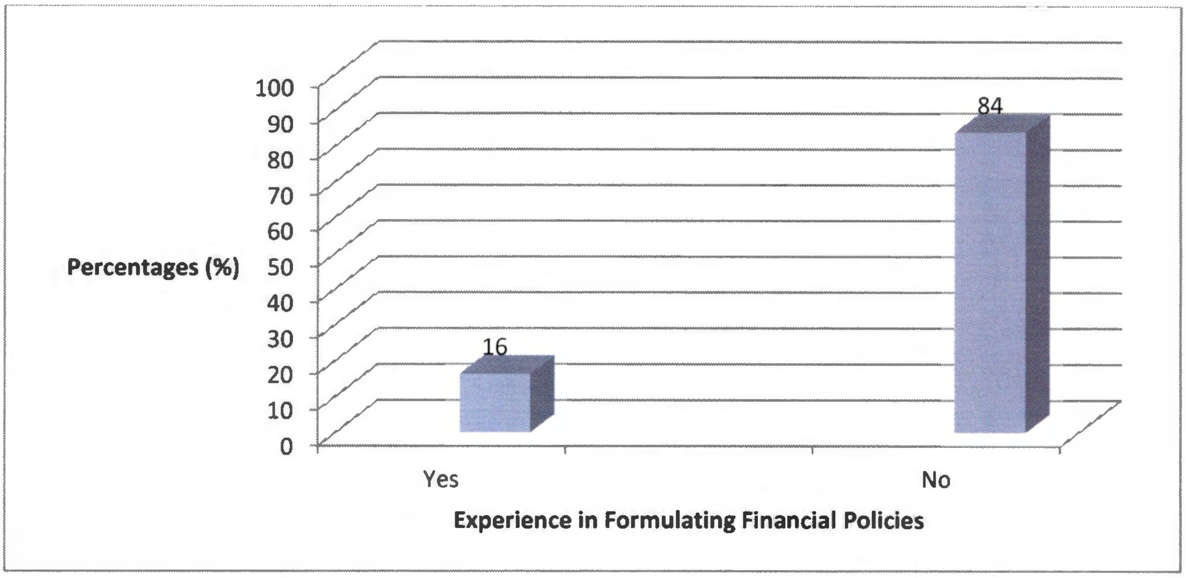

Figure 4.13 Experience of formulating financial policies amongst employees of Local Government Department

Figure 4.13 illustrates that the majority of the respondents (84%) do not have experience in formulating financial policies and only 16% of the respondents have experience ranging from 3 years to 20 years in financial policy formulation. This is due to the fact that most of the employees have a shorter period in the department and their respective divisions. This implies that they do not have relevant experience in fiscal policy formulation. According to Research Report 125 by Paradza, Mokwena and Richards (2010), many councillors in Local Government in the case studies lacked basic core skills to enable them to perform their functions effectively. They were therefore unable to read council documents, policies and plans in preparation for Council meetings. Therefore it is imperative for the Department to invest in staff development to enable employees to formulate financial policies.

Figure 4.14 highlights whether the respondents are involved in budget decision making at the Department of Local Government.

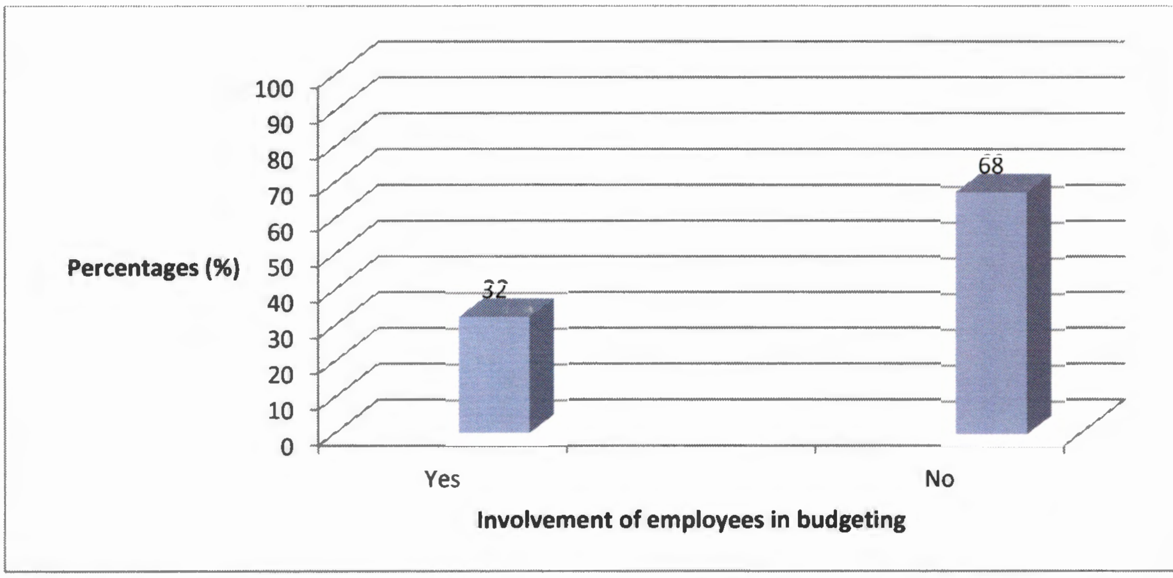

Figure 4.14 Involvement of employees in decision making for budgeting at the Department of Local Government

Figure 4.14 reflects that the majority of the respondents (68%) are not involved in the any budget decision making in the Department, and only 32% of the respondents have been involved in any decision making for budgeting purposes with experience ranging from 1 year and 25 years. This is due to the fact that the majority of the employees are in experienced in budget decision making. According to Research Report 125 by Paradza, Mokwena and Richards (2010), many councillors in Local Government only receive basic councillor induction training, relating to their broad roles and functions as councillors. Some receive other types of training in the fields of leadership and management, but training in the area of developing budgets and financial management is lacking. Thus one can infer training is needed for employees to be involved in decision making for budgeting.

Figure 4.15 highlights whether the respondents have experience in strategic planning at the Department of Local Government.

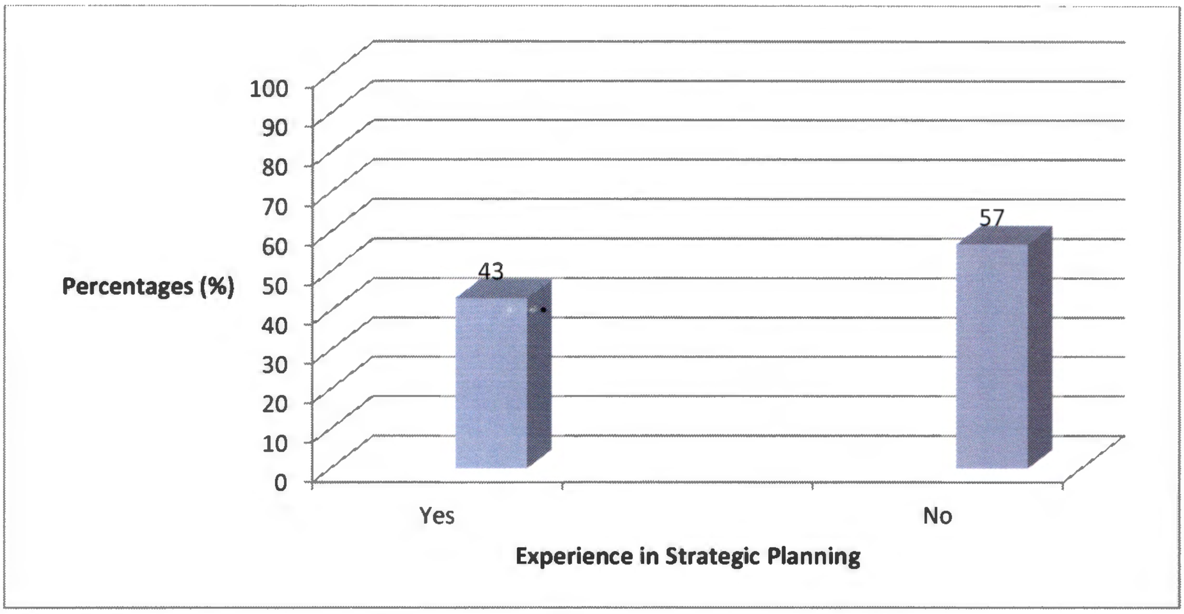

Figure 4.15 Employee experience in Strategic planning in their respective divisions.

Figure 4.15 reflects that the majority of the respondents (57%) have no strategic planning experience in their divisions and 43% of the respondents have strategic planning experience ranging from 6 months to 20 years in their divisions. This is due to the fact that the majority of the employees are still young workers, they lack appropriate experience in strategic planning and they are also not in key management positions. According to Research Report 125 by Paradza, Mokwena& Richards (2010), the reason for not providing good service delivery in local government, particularly municipalities, is the main problem of poor planning. Therefore this implies there is a need for proper training before employees can be involved in the strategic planning in their division in the Department of Local Government.

Figure 4.16 highlights whether the respondents have experience in budgeting process at the Department of Local Government.

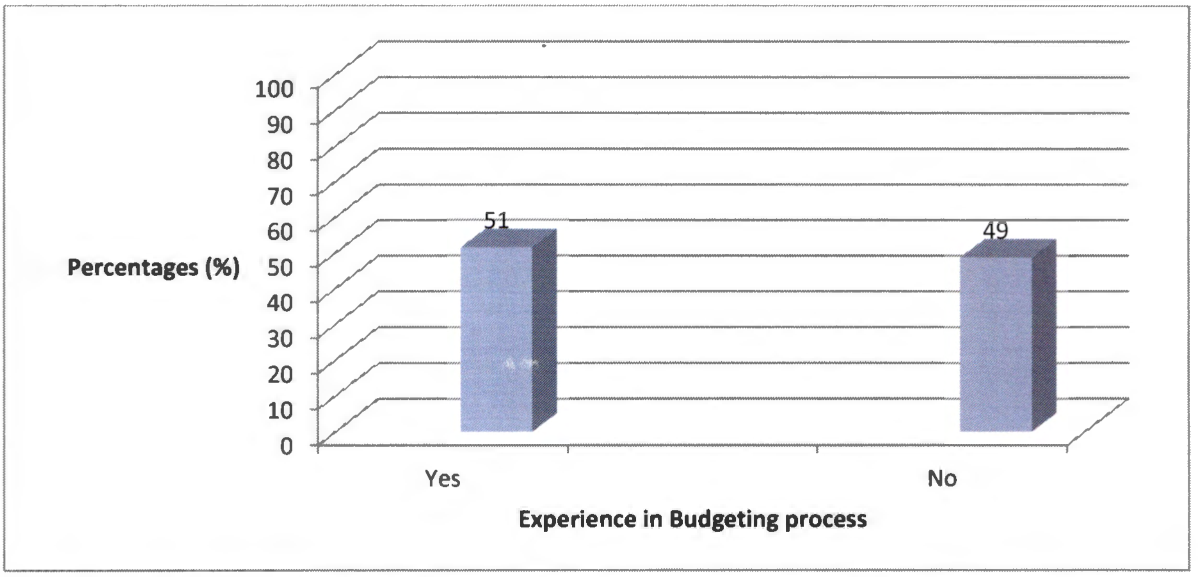

Figure 4.16 Experience of employees in the budgeting process in the Department of Local Government.

Figure 4.16 shows that the majority of the respondents (51%) have budgeting process experience ranging from 6 months to 25 years, and 49% of the respondents do not have any budgeting process experience. One can infer that employees are fully experienced to be involved in the budgeting process. According to Public Service Commission (2012), the institutionalisation of planning, budgeting, reporting, monitoring and evaluating is gaining momentum in government institutions.

Figure 4.17 highlights whether the respondents have experience in safeguarding of assets at the Department of Local Government.

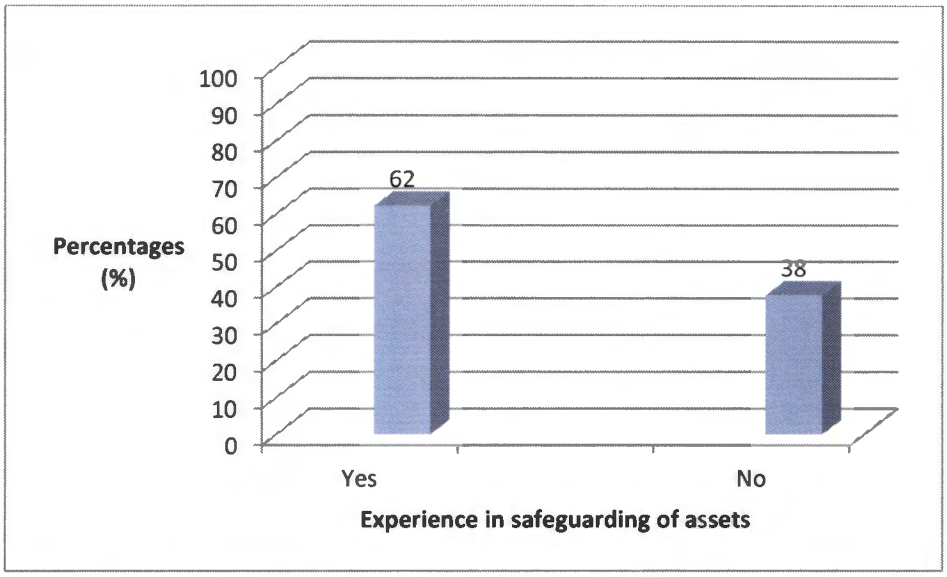

Figure 4.17 Employee experience in safeguarding assets in the Department of Local Government

Figure 4.17 illustrates that the majority of the respondents (62%) have experience ranging from 2 years to 25 years of asset safeguarding in the Department and 38% of the respondents do not have any experience in safeguarding of assets. Therefore one can infer that employees in the Department can safeguard government assets. According to the Public Finance Management Act, Act 1 of 1999, all officials are responsible for the management, including safeguarding, of the assets and the management of the liabilities within that official area of responsibility.

Figure 4.18 highlights whether the respondents have experience in monitoring projects of at the Department of Local Government.

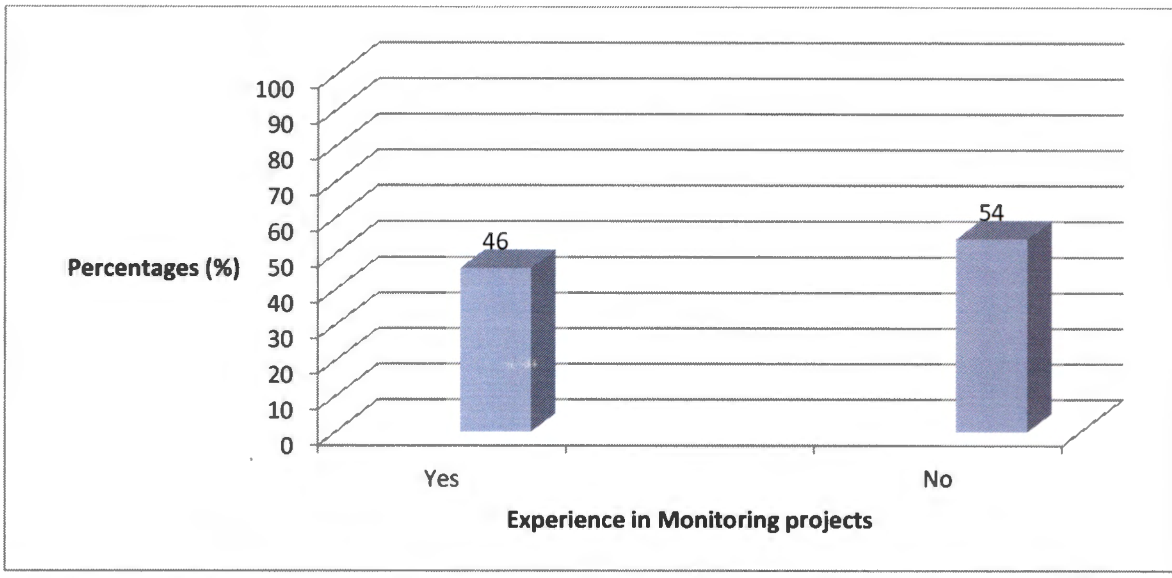

Figure 4.18 Experience of employees in monitoring projects in the Department of Local Government

Figure 4.18 illustrates that the majority of the respondents (54%) have no experience in project monitoring and 46% of the respondents have experience ranging from 3 months to 20 years in project monitoring in the Department. One can infer that the Department needs to invest in project management training to enable the employees to monitor and account for projects. This finding is similar to the findings of Public Service Commission (2012) Other challenges in Monitoring and Evaluation of projects include the lack of accountability, particularly for monitoring and reporting on performance information, unrealistic target setting and poor quality of performance information.

4.3 Section B:

This section measures the knowledge on fiscal policy in terms of budget process.

Table 4.1this table summarises the responses from the respondent of the Department of Local Government. (n=37).

STATEMENTS	**TRUE**	**FALSE**
	1	**2**
Ensuring a sound sustainable balance between Government's spending, tax and borrowing requirements	(34) 92	(3) 8
Improving domestic savings to support a higher level of investment and reduce the need to borrow abroad.	(32) 87	(5) 13
Keeping government consumption spending at an affordable level, contributing to lower inflation and a sustainable balance of payments.	(32) 87	(5) 13
Supporting an export-friendly trade and industrial strategy to improve South Africa's competitiveness.	(34) 92	(3) 8
Ensuring that pay increases within the public sector are market and productivity related, and are fiscally sustainable.	(29) 78	(8) 22
Reduction in the level of borrowing used to finance current spending.	(30) 81	(7) 19
Reduction in the overall tax burden as a share of GDP over time.	(31) 84	(6) 16

Reduction in government consumption spending as a share.	(31) 84	(6) 16
Government remains committed to a sound and stable fiscal policy.	(29) 78	(9) 22
Tax revenue, including social security contributions and local rates and tax, has risen steadily.	(28) 76	(9) 24
Consumption expenditure by general government grew strongly in real term.	(31) 84	(6) 16
Government dissaving has fallen significantly from a peak.	(22) 60	(15) 40
Capital expenditure by the general government increased. The public sector borrowing requirement has been reduced.	(20) 54	(17) 46
Lower growth reduces government revenue and constrains the resources available to the fiscal and the broader economy.	(29) 78	(8) 22
The revised budget framework allows for phased reduction in the national revenue.	(23) 62	(14) 38
Government is committed to reduce annual borrowing required.	(25) 68	(12) 32
Everybody is involved in the budget process in the department of Local Government.	(9) 24	(28) 76
Budget policies are considered ineffective.	(14) 38	(23) 62

The allocation of funds is done equitably.	(16) 43	(21) 57
Fiscal policy refers to changes in government taxing and/or spending.	(25) 68	(12) 32
Spending will be well contained over the medium-term expenditure framework (MTEF) period.	(23) 62	(14) 38
There is a relationship between fiscal and monetary policy.	(29) 78	(8) 22
Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector.	(31) 84	(6) 16
Fiscal policy restrains inflationary pressures in the economy to ensure economic stability.	(27) 73	(10) 27
Fiscal policy is allocation of resources.	(17) 46	(20) 54
Stabilisation policy is a policy of government that is aimed at maintaining moderate to low levels of unemployment and inflation, whilst stimulating economic growth.	(27) 73	(10) 27
Fiscal policy is a stabilisation of resources.	(28) 76	(9) 24
Redistribution of wealth is a fair process.	(21) 57	(16) 43
Fiscal policy is redistribution of resources.	(18) 49	(19) 51
The contingency should be	(31) 84	(6) 16

reserved and set aside within the expenditure total to deal with unforeseen circumstances.		

Table 4.1 presents the responses to the statements relating to knowledge of fiscal policy in the Department of Local Government. The respondents were requested to respond to 30 statements thereof. They were asked to rate each item on a scale of 1 to 2 (1 = True and 2 = False).

Out of 30 statements relating to knowledge of fiscal policy, 92% ensures sound sustainable balance between government's pending, tax and borrowing requirements and 87% improves domestic savings to support a higher level of investment and reduce the need to borrow abroad. Even though many believe that knowledge of fiscal policy ensures sound sustainable balance between government's expenditure, tax and borrowing requirement, as well as improving domestic savings to support increased investment, many still are not well trained in fiscal policy issues. This makes it hard for them to understand its importance for government expenditure, tax and borrowing requirement, because some of the employees hold only matric and certificates as their form of qualification, their level of work experience with finances, budgets are absolutely an area for concern. But the level of education also is a key consideration, because the majority of the respondents were in a position of a bachelor's degree, a post graduate degree, as well as a master's degree, this can ascertain the employee's knowledge of fiscal policy.

About 76% of the respondents made it clear that not every employee is involved in the budget process in the Department of Local Government, 62% of the respondents did not agree that budget policies are considered ineffective and 57% of the respondents highlighted that allocation of funds is not equitably done. The probable reasons would be, firstly budgeting processes are carried out at senior level in the hierarchy of any organisation, and the level of education can also hamper employees to be involved in the budgeting processes unless proper training is provided in this regard.

Secondly, the level of experience also may be an area for concern, because in order to be involved in budgeting processes as an employee, there is a need for prior experience from government's perspective, and also knowledge of process entailed in the PFMA. Thirdly, they may not be having knowledge of how budgets are carried out, that is why they highlight that funds are not equitably carried out, and lack of training in budgeting processes. But also the lack of knowledge in terms of the department's key priorities for the financial year would also lead to unequal distribution of funds. Lastly, cost-containment measures which are implemented in reducing expenditure on conferences may also hamper training of employees, because in conferences there are studies that can add to your growth and also provide knowledge on new ways of budgeting, and insight of how other countries are doing things. This is confirmed by Palil, (2010:6) who states that issues concerning taxpayer competency, honesty, capability and readiness are essential Taxpayer knowledge is crucial, as an insufficient level of tax knowledge may result in inaccurate tax returns and consequently, unintentional non-compliance.

Kumar, (2009) emphasises that the path of least resistance is merely to open the fiscal policy process up to scrutiny from the outside. Lack of public understanding of the state of the public finances, and the implications of different fiscal policies, allows governments to raise tax or spend more, at the expense of long term fiscal sustainability. European Commission (2012) reiterates that the budget has to be balanced or in surplus unless there are exceptional circumstances. Compliance with the budget rule is assumed if the annual structural deficit of the general government stays within the country-specific limit of its Medium Term Objective. If employees do not have experience in budgeting this would result in mismanagement of funds.

Tables 4.2 Attitudes towards fiscal policy in the Local government department. (n=37)

STATEMENTS	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
	1	2	3	4	5
Fiscal policy increases customs compliance.	(5) 14	(15) 41	(11) 30	(4) 10	(2) 5
Fiscal policy allows tax evasion to become a form of protest.	(2) 5	(12) 32	(11) 30	(7) 19	(5) 14
Fiscal policy encourages the government to increase debt.	(2) 5	(7) 19	(8) 22	(8) 22	(12) 32
Fiscal policy maintains low levels of unemployment.	(4) 11	(7) 19	(13) 35	(8) 22	(5) 13
Increases customs compliance.	(2) 5	(15) 41	(14) 38	(4) 11	(2) 5
Increases tax compliance.	(3) 8	(16) 43	(13) 35	(3) 8	(2) 5
Increases ease	(5) 13	(15)	(14) 38	(2) 5	(1) 3

and fairness of doing business with South African Revenue Service.		41			
Increases the cost effectiveness.	(8) 22	(16) 43	(10) 27	(3) 8	(0) 0
Increases internal efficiency.	(1) 3	(17) 45	(13) 35	(5) 14	(1) 3
Fiscal policy causes overspending.	(2) 5	(4) 11	(8) 22	(16) 43	(7) 19
Fiscal policy causes excessive debt.	(4) 11	(6) 16	(9) 24	(10) 27	(8) 22
There is huge lack of public understanding of the state public finances.	(13) 35	(12) 32	(7) 19	(1) 3	(4) 11
Poor forecasting has allowed politicians to commit to a surplus that never materialises.	(16) 42	(8) 22	(8) 22	(5) 14	(0)0
The current fiscal framework is in need of radical reform.	(6) 16	(17) 47	(10) 27	(2) 5	(2)5
Greater	(6) 16	(20)	(8) 22	(3) 8	(0) 0

transparency and public accountability has therefore been a prerequisite for fiscal discipline.		54			
Rising debt and a persistent, structural deficit are not simply reflective of poor fiscal management.	(1) 3	(12) 32	(14) 38	(9) 24	(1) 3
The root of the debt ratchet is the failure of politicians to commit to save in the good times.	(4) 11	(11) 30	(17) 46	(3) 8	(2) 5
Cost-containment measures limit expenditure on conferences, travel, entertainment and other non-essential items.	(13) 35	(14) 38	(9) 24	(1) 3	(0) 0
Tax compliance has undoubtedly increased the	(10) 27	(17) 46	(7) 19	(2) 5	(1) 3

individual tax register and returns that were filed on time.					
Tax evasion became a form of protest.	(4) 11	(15) 40	(13) 35	(4) 11	(1) 3
Tax evasion results in a narrow tax base and a lack of legitimacy in the eyes of the public.	(2) 5	(18) 49	(14) 38	(2) 5	(1) 3
Tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals.	(9) 24	(14) 38	(8) 22	(2) 5	(4) 11
Many taxpayers are unaware of their responsibilities.	(16) 42	(8) 22	(7) 19	(5) 14	(1) 3
South Africa launched to provide better service to taxpayers.	(5) 14	(18) 48	(10) 27	(1) 3	(3) 8
South Africa is	(8) 22	(19)	(6) 16	(4) 11	(0) 0

encouraging compliance and pursuing more aggressive enforcement and collection initiatives.		51			
SARS runs educational campaigns to improve compliance standards and disseminate legislative information to construction companies.	(8) 22	(16) 43	(8) 22	(3) 8	(2) 5
Non-compliance of the budget rule in government spending increases the government spending.	(7) 19	(19) 51	(6) 16	(5) 14	(0) 0
Compliance starts with how revenue is collected through tax.	(9) 24	(17) 46	(8) 22	(1) 3	(2) 5
Regulations will	(14) 38	(15)	(6) 16	(1) 3	(1) 3

strengthen the National Treasury's oversight of public entities by requiring them to comply with stringent reporting requirements for expenditure, revenue and performance.		40			
Corresponding law shall be enshrined in the constitution.	(6) 16	(17) 46	(12) 32	(1) 3	(1) 3

Table 4.2 presents the responses to the statements relating to attitudes of the employees towards fiscal policy in the Department. The respondents were requested to respond to four statements thereof. They were asked to rate each item on a scale of 1 to 5 (1 = strongly agree; 2 = agree; 3 = uncertain, 4 = disagree and 5 = strongly disagree).

The study also investigated the attitudes of employees towards fiscal policy. Out of 37 responses received, 65% of the respondents agreed that good attitude towards fiscal policy increases cost effectiveness, 67% of the respondents agreed that there is a huge lack of understanding when it comes to the state public finances, 73% of the respondents highlighted that cost-containment measures utilised to limit government expenditure could lead to employees having an attitude towards fiscal policy, 73% of the respondents indicated that a changed attitude towards fiscal policy encouraged tax compliance from an individual's perspective, which increased tax returns and individuals submitted their returns on time and 73% of the respondents agreed that South Africa is encouraging tax compliance, more aggressive enforcement and collection initiatives are been pursued.

Even though this was the case, many still believe that fiscal policy allows government to increase its debts. It causes overspending, which in turn allows the individuals to have negative attitude towards fiscal policy and tax returns are no submitted, or are submitted late. South Africa is also associated with corruption and misuse of state funds. This discourages individual tax returns as the workers want to see their taxes utilised in a more productive manner, the trust of politicians by the public also exert significant attitude towards fiscal policy. This is confirmed by Isa (2014), that tax compliance has always been an area of concern to policy makers, tax administrators and society in general. This is mainly because tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals Measures to improve compliance includes providing excellent taxpayer services that generate better long-term outcomes such as higher tax collection and a reduction in the tax gap. The aim of tax reform in many countries is to achieve higher voluntary compliance and one way to achieve this is by introducing a self-assessment system (Palil, 2010; 6).

Tables 4.3 level of compliance implementation of fiscal policy in the Department of Local Government. (n=37)

STATEMENTS	COMPLIANT	NOT COMPLIANT
	1	2
Government ensures a sound sustainable balance between Government's spending, tax and borrowing requirements.	(30) 81	(7) 19
Government improves domestic savings to support a higher level of investment and reduce the need to borrow abroad.	(20) 54	(17) 46
Government keeps consumption spending at an affordable level.	(21) 57	(16) 43
Support an export-friendly trade and industrial strategy to improve South Africa's competitiveness.	(25) 68	(12) 32
Government ensures that pay increases within the public sector are market and productivity related, and is fiscally sustainable..	(26) 70	(11) 30
Government reduces level of borrowing used to finance current spending.	(22) 60	(15) 40
Government reduces the overall tax burden as a share of GDP	(27) 73	(10) 27

over time.		
Government reduces government consumption spending as a share.	(24) 65	(13) 35
Government remains committed to a sound and stable fiscal policy.	(26) 70	(11) 30
Tax revenue, including social security contributions and local rates and tax, has risen steadily.	(25) 68	(12) 32
Consumption expenditure by general government grew strongly in real term.	(22) 60	(15) 40
Government has to do dissaving.	(15) 40	(22) 60
Government is committed to reduce annual borrowing requirement.	(26) 70	(11) 30
The revised budget framework should allow for phased reduction in the national revenue.	(24) 65	(13) 35
Everybody should be involved in the budget process in the Department of Local Government.	(21) 57	(16) 43
The allocation of funds is done equitably.	(18) 49	(19) 51
Medium-term expenditure	(31) 84	(6) 16

framework (MTEF) period is used effectively.		
Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector.	(26) 70	(11) 30
Stabilisation policy is used by government to maintain moderate to low levels of unemployment and inflation, whilst stimulating economic growth.	(25) 68	(12) 32
Redistribution of wealth should be a fair process.	(24) 65	(13) 35
Government should use fiscal policy as redistribution of resources.	(29) 78	(8) 22
The contingency should be reserved and set aside4 within the expenditure total to deal with unforeseen circumstances.	(29) 78	(8) 22
Government is committed to sound and sustainable fiscal policy.	(25) 68	(12) 32
Budget projection should be revised for spending.	(28) 76	(9) 24
Government is committed to sound public finances	(25) 68	(12) 32
Interest is inflicted to public debts	(20) 54	(17) 46

Government have some instruments at their disposal that have a quick or even immediate effect on prices, such as value added tax (VAT).	(23) 62	(14) 38
Government adjusts overall budget balance.	(24) 65	(13) 35
Tax compliance is enhanced when individuals view the paying of taxes as a fair fiscal exchange.	(27) 73	(10) 27
Budget Enforcement Act [BEA] helped to be bring about significant fiscal improvement.	(25) 68	(12) 32

Table 4.3 presents the responses to the statements relating to ascertainment of compliance implementation of fiscal policy in the Department of Local Government. The respondents were requested to respond to 30 statements thereof. They were asked to rate each item on a scale of 1 to 2 (1 = Compliant and 2 = Not Compliant).

The study also investigated the level of compliance by the Department of Local Government. Out of the 37 responses received, 81% of the respondents agreed that government is compliant with ensuring a sound sustainable balance between government's spending, tax and borrowing requirements, 78% of the respondents indicated that government is compliant in utilising fiscal policy as redistribution of resources, 78% highlighted that government is compliant in ensuring that there is a contingency set aside to deal with unforeseen circumstances, 59 % highlighted that government did not comply with carrying out dissaving and 51% indicated that government is not compliant with equitably allocating funds.

One can infer that because of the educated and slightly experienced employees, it is possible for government to comply with the prescripts of the fiscal policy, which will enable balance between spending, tax and borrowing. Government will always allocate funds to the priority areas, such as social welfare, health, education, etc., that is why there will always be unequitable distribution of funds. But it is always difficult for government to curb its expenditure, as South Africa is faced with low rates of unemployment, poverty, and these issues will always increase government expenditure. Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector (Fernado, 2011:155). It is the manner in which government adjusts its tax rates and spending levels to influence and to monitor the nation's economy. It can also be defined as the use of government taxation and spending to influence the economy (Horton & El-Ganainy, 2009:01). Krugman (2009) emphasised the compliance or noncompliance of the budget rule in government spending; yet another group of economists argued that the best response would be to reduce the government spending, that is, to reduce both taxes and spending. SARS is well on its way to increase custom compliance as it launched the Customs Modernisation Programme in 2009 to address the largely paper-based and labour-intensive system. The modernisation of this tax picked up momentum from 2010 and several key changes were made in 2011 and 2012 resulting in the system being largely automated (SARS, 2013c:1). Tax compliance has undoubtedly increased as is depicted above in the growth in the individual tax register and returns that were filed on time.

For example, in the construction sector many sub-contractors operate informally, outside of the tax base. By working with the construction sector employers association, Master Builders SA (MBSA), SARS runs educational campaigns to improve compliance standards and disseminate legislative information to construction companies

Weakening compliance, as suggested by Brondolo (2009), compliance is likely to decline in all countries, for example, if taxpayers have lost access to other forms of financing or due to perceptions of a higher expected payoff from tax evasion. This effect may be particularly acute in countries with relatively weak tax administrations. Lewis (2010) states that living with high debt, would reduce the capacity of fiscal policy to respond to future shocks. High debt would likely lead to high real interest rates. Fiscal rules are the vogue solution to rising debt and irresponsible fiscal policy. The problem is that no Parliament can bind a future Parliament. For a rule to work, future politicians must be as committed to it as those who pass it today.

4.4 Chapter Summary

The chapter presented the findings on the demographics of the respondents, as well as key information on knowledge of fiscal policy form the employees of the Department of Local Government in the North West Province. Overall the results indicate that government should ensure sound sustainable balance between government's spending, tax and borrowing requirements. SARS runs educational campaigns in order to improve compliance standards and disseminate legislative information to construction companies. The respondents also indicated that tax compliance affects revenue collection and the ability of government to achieve its fiscal and social goals. Chapter 5 will focus on summary, findings, recommendations and conclusion to the study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on the following: a brief summary of the study, major findings of the study, as well as major recommendations.

5.2 Summary

The study was conducted in the Department of Local Government and Human Settlement in the North West Province. The study outlined the background of the study, problem statement, and the aim of the study, research objectives, research questions, significant and scope of the study. Literature Review was discussed in detail. The review consisted of sections that provided insight and detail on compliance of fiscal policy. Research Methodology described the research design which included the method of investigation.Sample Procedure and Sample Size, Data Collection, where a questionnaire was developed for them the Department of Local Government and Human Settlement, and administered by the researcher. The validity and reliability of the variables were assessed using the item reliability, construct reliability, and average variance extract, together with Cronbach's coefficient alpha. Data was obtained through questionnaire made up of sections: A: Demographic Information; Section B: Knowledge of fiscal policy, Determine attitude towards fiscal policy, Ascertain the level of compliance implementation of Fiscal Policy in the Department of Local Government. Data were described with frequency counts. The responses were coded to facilitate entry into computer. All questionnaires received for this study were coded before inputting into an SPSS soft package. The researcher obtained permission from the Department of Local and Traditional Affairs to conduct research. The researcher completed forms of ethics from the North West University for Compliance. Questionnaires were then distributed to the Department of Local Government and Human

Settlement. The response and results were treated confidential. The research findings were presented, analysed, interpreted and discussed. The findings were split into four sections. The results from the analysis were checked if the primary research objective were met by the secondary research objectives. The results from the research were listed and discussed.

5.3 Major findings of the study

The findings on four objectives of the study identified personal characteristics of employees towards the government budget in the Department of Local Government and Human Settlement. Majority of the respondents (51%) have budgeting process experience ranging from 6 months to 25 years and 49% of the respondents do not have any budgeting process experience. Majority of the respondents (84%) do not have experience in formulating financial policies and only 16% of the respondents have experience ranging from 3 years to 20 years in financial policy formulation.

About 52% of the respondents agreed that negative or positive attitude towards fiscal policy can increase or decrease tax compliance. Some 38% of the respondents indicated their uncertainty towards attitude increasing tax compliance. A total of 13% of the respondents did not agree that attitude increases customs compliance. The majority of the surveyed respondents (67%) indicated that there is a huge lack of public understanding of the state public finances. 64% of the respondents agreed that poor forecasting has allowed politicians to commit to a surplus that never materialises.

5.4 Conclusion

Budgeting is a rule-driven process that regulates the raising and spending of public money. Compilation of the annual budget, legislative action including the voting of appropriations, expenditure of funds during the financial year, and reporting on financial stocks and flows is very important. Governments should adopt budget rules in their daily activities and make sure that all employees understand and are involved in budgeting.

From an economic point of view, legal considerations apart, tax avoidance, tax evasion and tax flight have similar effects, namely a reduction of revenue yields, and are based on the same desire to reduce the tax burden. Due to legal differences and moral concerns it is, however, likely those involved perceive them as different and as unequally fair.

Despite the fact that tax avoidance, tax evasion, and tax flight lead to similar effects on revenue yields, taxpayers discriminate between them and evaluate them differently. Moreover, these evaluations depend, for instance, on personal affectedness, experience, profession, and knowledge.

A framework for tax compliance is suggested in which both the power of tax authorities and trust in the tax authorities are relevant dimensions for understanding enforced and voluntary compliance. From that starting point, the framework proceeds with the idea to think about tax compliance along two major dimensions: the power of tax authorities and the trust in tax authorities. These dimensions and their interactions jointly influence the level of tax compliance

5.5 RECOMMENDATIONS

Recommendations are based on the objectives and research questions of the study:

The first objective is to identify personal characteristics of employee, which is very important in every organisation. The personal characteristics of employees towards the government budget need a very serious consideration. A government should disseminate broad goals and review them with stakeholders. One element is the creation of budget documents and other publications that convey essential information on organizational goals and associated policies, plans, and resource allocations. This information needs to be available to casually interested stakeholders while giving those interested in more detail an opportunity to understand much more about the workings of government and how it is financed. The budget document itself can serve as a primary vehicle for educating stakeholders.

Production of a full-blown recommended budget provides stakeholders who are interested in participating in the adoption process an opportunity to see the budget in detail before it is cast in stone. A final adopted budget allows stakeholders the opportunity to see what eventually made it through the review process so that there are no mixed signals over what was adopted. Each document serves a critical function in educating those interested in the process and in emphasizing what is reflected at each stage. While those most interested in the budget may access the full document, others interested in budgeting may need a smaller dose of detail and be more interested in the big picture.

The second objective of the study is to determine attitude towards Fiscal Policy. Employees need to be trained to understand the shock of fiscal policy. The following questions need to be addressed: What are the effects of tax cuts on the economy? How much does it matter whether they are financed by corresponding cuts of expenditure or by corresponding increases in government debt, compared to the no-tax-cut scenario? Fiscal policy encompasses a wide variety of policies: there is an endless list of types of incomes, for which the tax rules could be changed, or categories of government spending, where changes could occur.

The third objective is to examine the knowledge level of employee about Fiscal Policy. For the employees to have a better knowledge about Fiscal Policy

education must grow with the Good health, tends to increase workers ability to acquire new knowledge and skills, quality of education due to public schooling increases the quality of research employees, thus fostering an opportunity to know more.
In the presence of sticky prices or wages, fiscal policy affects macroeconomic performance via a second channel, the exchange rate channel. For instance, an increase in government spending that generates nominal appreciation hurts the profitability of firms in the traded sector if they face exogenous foreign currency prices and domestic nominal wages are not fully flexible. Employees need to understand this.

The fourth objective is to ascertain the level of compliance to the implementation of Fiscal Policy. A natural step would be to set up Fiscal Policy Committees (FPCs) with the corresponding features: The FPC members are unelected experts appointed for a fixed duration, long enough to make them fully independent and to exceed the horizon of the policy target; The FPC is given by the relevant political authorities a debt target to be achieved over a given horizon that is commensurable with business cycles; The FPC is given the authority to decide on the budget balance on the basis of an explicit GDP growth forecast; The final budget law approved by parliament must specify a budget balance that matches the FPC's decision for the most likely growth forecast; The FPC is accountable to parliament.

Compliance with a spending rule would be more transparent and less disputable. Even if there were dispute with respect to an estimate of a policy change in entitlement spending or taxes, the universe in dispute would be only that one change; and because the rule would require the policy change to aim for a net effect of zero, the amount at stake would be much smaller than in controversies regarding a deficit rule. Thus, routine enforcement of a spending rule would focus more on policy changes before the fact. Enforcement of existing deficit rules has tended to arise after deficits are already excessive, and has not been notably successful.

A number of conditions need to be met to ensure effective implementation of fiscal rules. These include: *i)* a robust legal basis; *ii)* a clear definition of institutional responsibilities; *iii)* transparent accounting, and timely and comprehensive reporting of sub-national government operations; *iv)* firm and non-discriminatory enforcement of rules and sanctions; and *v)* perception by local taxpayers of benefits of their government's compliance with rules. While fiscal rules for sub-national governments may instil some fiscal discipline, they nonetheless cannot substitute for a properly designed system of intergovernmental relations. In particular, fiscal rules are unlikely to be effective in countries where expenditure assignments are not clear, sub-national governments do not enjoy an adequate base of own revenue, intergovernmental transfers are not properly designed, and gap-filling transfers are actually used, creating moral hazard.

5.6 Conclusion and future research

This study assessed compliance to fiscal policy in the Department of Local Government and Human Settlement. The findings showed that there is some compliance to fiscal policy. This however could be improved. From the findings, it is recommended that staff members be trained in the issues of fiscal planning. The training should be directed at the lower levels of management. This will lead to informed decision making. It is recommended that the study be duplicated in other government departments as the issue of compliance with fiscal policy is not unique to the department of Local Government and Human Settlement.

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APPENDIX A

QUESTIONNAIRE TO THE DEPARTMENT OF LOCAL GOVERNMENT: THE CASE OF THE NORTH WEST PROVINCE.

I am a Master's student at the North West University Mahikeng Campus and conducting a research on:

ASSESSMENT OF COMPLIANCE TO FISCAL POLICY IN THE NORTH WEST PROVINCE: THE CASE OF THE DEPARTMENT OF LOCAL GOVERNMENT

Kindly assist in the completion of this study by furnishing the information in the questionnaire. Your honest response will contribute to addressing the compliance to fiscal policy in the Local Government Department. This will be treated with the utmost confidentiality.

Please read the statements carefully and mark with a cross(X) in the appropriate block.

SECTION A

1. Demographic Information
2.

2.1 Gender

Male	
Female	

2.2 Age group

Less than 25 years	
25 – 30 years	
31 – 35 years	
36 – 40 years	
41 – 45 years	
46 – 50 years	
More than 51	

2.3 Job status

Senior Management	
Middle Management	
Lower Management	
Supervisory	
Operational	

2.4 Highest qualification

Below Matric	
Matric	
Certificate	
Bachelor Degree	
Honours Degree	
Master's Degree	
Doctorate Degree	

2.5 Number of years employed at the current organisation

0 – 5 years	
6 – 10 years	
11 – 15 years	
16 – 20 years	
21 years and above	

1.6 How many years have you been working (Years of work experience)?

1.7 What division are you working for?

1.8 How long have you worked in your division?

1.9 How many subordinates do you have?

1.10 Home language

Afrikaans	**English**	**Sepedi**	**Sesotho**	**Setswana**	**others**

1.11 Ethnicity

African	Coloured	Indian	White	Other	

1.12 Do you belong to any Professional Boards? Yes or No

If Yes, Specify

1.13 do you have experience in formulating financial Policies? Yes or No

If Yes, for how long?

1.14 Are you involved in any decision making for budgeting? Yes or No

If Yes, for how long?

1 .16 Do you have experience in budgeting process? Yes or No

If Yes, for how long?

1.15 Do you have experience in Strategic planning of your division? Yes or No

If Yes, for how long?

1.17 Do you have experience in Safeguarding of Assets? Yes or No

If Yes, for how long?

1.18 Do you have experience in monitoring projects? Yes or No

If Yes, for how long?

SECTION B

This section measures the knowledge on Fiscal policy in terms of budget process. Please put a cross (**X**) or tick (√) in the applicable box to indicate **True or false**

Knowledge of fiscal policy: The aims and objectives

No	Item	True	False
2.1	Ensuring a sound sustainable balance between Governments's spending, tax and borrowing requirements.		
2.2	Improving domestic savings to support a higher level of investment and reduce the need to borrow abroad.		
2.3	Keeping government consumption spending at an affordable level, contributing to lower inflation and a sustainable balance of payments.		
2.4	Supporting an export-friendly trade and industrial strategy to improve South Africa's competitiveness.		
2.5	Ensuring that pay increases within the public sector are market and productivity related, and are fiscally sustainable.		
2.6	Reduction in the level of borrowing used to finance current spending.		
2.7.	Reduction in the overall tax burden as a share of GDP over time.		
2.8	Reduction in government consumption spending as a share.		
2.9	Government remains committed to a sound and stable fiscal policy.		
2.10	Tax revenue, including social security contributions and local rates and tax, has risen steadily		
2.11	Consumption expenditure by general government grew strongly in real term.		
2.12	Government dissaving has fallen significantly from a peak.		
2.13	Capital expenditure by the general government increased The public sector borrowing requirement has been reduced.		
2.14	Lower growth reduces government revenue and constrains the resources available to the fiscal and the broader economy.		
2.15	The revised budget framework allows for phased reduction in the national revenue.		
2.16	Government is committed to reduce annual borrowing required		

2.17	Everybody is involved in the budget process in the department of Local Government.		
2.18	Budget policies are considered ineffective		
2.19	The allocation of funds is done equitably.		
2.20	Fiscal policy refers to changes in government taxing and/or spending.		
2.21	Spending will be well contained over the medium-term expenditure framework (MTEF) period.		
2.22	There is a relationship between fiscal and monetary policy.		
2.23	Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector.		
2.24	Fiscal policy restrains inflationary pressures in the economy to ensure economic stability.		
2.25	Fiscal policy is allocation of resources		
2.26	Stabilisation policy is a policy of government that is aimed at maintaining moderate to low levels of unemployment and inflation, whilst stimulating economic growth.		
2.27	Fiscal policy is a stabilisation of resources		
2.28	Redistribution of wealth is a fair process.		
2.29	Fiscal policy is redistribution of resources		
2.30	The contingency should be reserved and set aside within the expenditure total to deal with unforeseen circumstances.		

This section Determines attitude towards Fiscal Policy Please put a cross **(X)** or tick (√) in the applicable box to rate your level of agreement or disagreement. Mark one box only

3. Determine attitude towards Fiscal Policy.

No	Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
3.1	Fiscal policy Increases customs compliance.					
3.2	Fiscal policy allows tax evasion to become a form of protest					
3.3	Fiscal policy encourages the government to increase debt.					
3.4	Fiscal policy maintains low levels of unemployment.					
3.5	Increases customs compliance					
3.6	Increases tax compliance					
3.7	Increases ease and fairness of doing business with South African Revenue Service.					
3.8	Increases the cost effectiveness,					
3.9	Increases internal efficiency					
3.10	Fiscal policy causes overspending					
3.11	Fiscal policy causes excessive debt					
3.12	There is huge Lack of public understanding of the state public finances,					
3.13	Poor forecasting has allowed politicians to					

	commit to a surplus that never materialises.					
3.14	The current fiscal framework is in need of radical reform					
3.15	Greater transparency and public accountability has therefore been a prerequisite for fiscal discipline					
3.16	Rising debt and a persistent, structural deficit are not simply reflective of poor fiscal management					
3.17	The root of the debt ratchet is the failure of politicians to commit to save in the good times.					
3.18	Cost-containment measures limit expenditure on conferences, travel, entertainment and other non-essential items.					
3.19	Tax compliance has undoubtedly increased in the individual tax register and returns that were filed on time.					
3.20	Tax evasion becames a form of protest					
3.21	Tax evasion results in a narrow tax base and a lack of legitimacy in the eyes of the public.					
3.22	Tax compliance affects revenue collection and the ability of the government to					

	achieve its fiscal and social goals					
3.23	Many taxpayers are unaware of their responsibilities					
3.24	South Africa launched to provide better service to taxpayers					
3.25	South Africa is encouraging compliance and pursuing more aggressive enforcement and collection initiatives					
3.26	SARS runs educational campaigns to improve compliance standards and disseminate legislative information to construction companies.					
3.27	Non-compliance of the budget rule in government spending increases the government spending					
3.28	Compliance starts with how revenue is collected through tax					
3.29	Regulations will strengthen the National Treasury's oversight of public entities by requiring them to comply with stringent reporting requirements for expenditure, revenue and performance.					
3.30	Corresponding law shall be enshrined in the constitution.					

4. Ascertain the level of compliance implementation of Fiscal Policy in the Department of Local Government.

No	Item	Compliant	Not Compliant
4.1	Government ensures a sound sustainable balance between Government's spending, tax and borrowing requirements.		
4.2	Government improves domestic savings to support a higher level of investment and reduce the need to borrow abroad.		
4.3	Government keeps consumption spending at an affordable level.		
4.4	Support an export-friendly trade and industrial strategy to improve South Africa's competitiveness.		
4.5	Government ensures that pay increases within the public sector are market and productivity related, and is fiscally sustainable.		
4.6	Government reduces level of borrowing used to finance current spending.		
4.7	Government reduces the overall tax burden as a share of GDP over time.		
4.8	Government reduces government consumption spending as a share.		
4.9	Government remains committed to a sound and stable fiscal policy		
4.10	Tax revenue, including social security contributions and local rates and tax, has risen steadily.		
4.11	Consumption expenditure by general government grew strongly in real term.		

4.12	Government has to do dissaving.		
4.13	Government is committed to reduce annual borrowing require.		
4.14	The revised budget framework should allow for phased reduction in the national revenue.		
415	Everybody should be involved in the budget process in the department of Local Government		
4.16	The allocation of funds is done equitably.		
4.17	Medium-term expenditure framework (MTEF) period is used effectively.		
4.18	Fiscal policy is used as an instrument to promote and accelerate the rate of investment in the public sector.		
4.19	Stabilisation policy is used by government to maintain moderate to low levels of unemployment and inflation, whilst stimulating economic growth.		
4.20	Redistribution of wealth should be a fair process.		
4.21	Government should use Fiscal policy as redistribution of resources.		
4.22	The contingency should be reserved and set aside within the expenditure total to deal with unforeseen circumstances.		
4.23	Government is committed to sound and sustainable fiscal policy.		
4.24	Budget projection should be revised for spending.		
4.25	Government is Committed to sound public finances.		
4.26	Interest is inflicted to public debts.		
4.27	Governments have some instruments at their disposal that have a quick or even immediate effect on prices, such as value added tax (VAT)		

	rates.		
4.28	Government adjusts overall budget balance.		
4.29	Tax compliance is enhanced when individuals view the paying of taxes as a fair fiscal exchange.		
4.30	Budget Enforcement Act [BEA] helped to bring about significant fiscal improvement.		