Business Day

Commission recommends changes to municipal funding

by Linda Ensor, 22 April 2013, 12:42

THE Financial and Fiscal Commission (FFC) has recommended changes to the way local government is funded to ensure there are more dedicated funds for capital spending on infrastructure and its maintenance.

Reports abound of lack of investment in such infrastructure, whether roads or sewerage works, and FFC acting chairman and CEO Bongani Khumalo said at a media briefing on Monday that the situation was not sustainable.

The commission estimated the infrastructure backlog at about R42bn (excluding maintenance) in the 2009-10 financial year and Mr Khumalo said this figure would have risen since then.

Among the changes the commission recommended is more frequent updating of the data on which the funding formula is based, to more accurately reflect changes such as rapid urbanisation.

Insufficient spending on infrastructure was just one of several findings identified by the commission in its review of the local government fiscal framework.

Its findings and recommendations are contained in a report, Sustaining Local Government Finances, tabled in Parliament last week.

They were drawn from a series of public hearings which the FFC held to determine the challenges of the current local government fiscal framework, and will feed into a holistic review of the system of local government which the Department of Co-operative Governance and Traditional Leaders is undertaking. This review will deal both with the financing of local government and the assigning of functions to it.

Another deficiency of the existing system, the commission found, was its inability to deal with differences among the 278 municipalities relating to demographics, the level of economic and social development, capacity and levels of efficiency. The funding formula was not sufficiently sensitive to the different expenditure pressures and revenue-raising ability of municipalities.

Furthermore, the commission found that the current system of funding was not sufficiently sensitive to changes on the ground — such as rapid urbanisation — because the data were not updated often enough. The funding formula was changed on the basis of the 2011 census but this was not sufficient as the census took place only every 10 years.

Mr Khumalo said the commission had recommended the census be held every five years and regular updates of data take place between them.

The FFC has also called for a review of the system of conditional grants, which it found were inefficiently spent. For one thing, the multiplicity of grants should be rationalised, Mr Khumalo told reporters.

Another problem related to the collection of revenue by municipalities ,which are constrained by high levels of consumer debt and poor determination of tariffs.

"In this regard the commission calls for a combination of punitive and innovative methods to collect revenues from communities and the appropriate determination of tariffs to ensure costs are recovered and revenues generated.

"The commission also calls for an urgent review of the sharing of the general fuel levy with metropolitan municipalities and the permanent replacement for the abolished Regional Services Levy," Mr Khumalo said.

There was also concern about increasing costs faced by municipalities — such as rises in the administered prices of bulk electricity and water — which hindered their ability to generate revenue and deliver services.

The report highlights the "service delivery inefficiencies and resource wastage" that continue to plague the system of local government.

The office of the auditor-general found irregular and unauthorised expenditure by municipalities amounted to about R11bn in 2010-11.

http://www.bdlive.co.za/national/2013/04/22/commission-recommends-changes-to-municipal-funding