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FFC Public Hearings on the LG Fiscal Framework

Comment by SALGA

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Introduction

- There is common agreement on the challenges regarding the Local Government Fiscal Framework (LGFF)
- SALGA recommended to the 2010 Budget Forum for an independent commission to review the LGFF
- Processes:
 - NT/CoGTA
 - LGES Review
 - FFC LGFF Review
- **FFC options provides a conceptual framework for a new LGFF**



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General Comments

- The basis for the review of the LGFF should be informed by a robust analysis of the financial and non-financial impact of the current LGFF
 - there is no comprehensive report on what conditional grants have achieved since inception and what informs its annual amendments;
 - the cost of compliance with laws and regulations governing the LGFF has increased substantially;
 - municipalities have had to manage the implementation of onerous legislation over less than a 10 year period (MFMA, MPRA, MSA, DoRA, DFA, NEMA, Water Act, NERSA, etc.) coupled with major changes in Budget Reforms and Accounting Standards?



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Service delivery

- We need to improve coordination and partnership in service delivery
 - Eskom, Water Boards and PRASA
 - Need to add other partnerships – private sector, SANRAL, DoT, department of health, etc
- Has an assessment been done on the effectiveness of regulatory structures and provinces – budget and planning alignment and its impact on service delivery
- Backlogs – different standards for different areas and agree with FFC identification of different cost drivers – e.g. sanitation high in urban and low in rural - impact on MIG and other capital allocations
- Financial impact of technical and actual losses in water and electricity
 - City of Cape Town Distribution losses shows a worrying trend - a reduction in water distribution losses of 1% can result in a saving of R24m or if reduced to say 15% will realise a saving of R122m



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Capital Investment

- Coordination of investment across spheres of government – housing, social services
- Other sources
 - Access to DFI funding for smaller municipalities
 - Address the proposal for development charges



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Revenue patterns

- Further work is needed to deal with options to improve own revenues
- SALGA has identified external factors affecting own revenue collection and presented this to the BF
 - Inter alia, implementation and coordination with land tenure process challenges regarding the establishment of the Office of Valuer General
 - Many issues and risks to effective credit control and debtors collection (internal and external)
- Importance of cost reflective tariffs (skills, capacity, political priorities, etc)
- Eskom supply areas problems
- Municipal internal inflation (cost drivers) is far in excess of CPI
 - high capital and operating costs (bulk)



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Expenditure

- Operating expenditure fiscal gap in the different categories of municipalities
 - this should be assessed against grant allocations (especially the LGES) and own revenue raising potential
- Maintenance of indigent registers is a huge cost for municipalities – need to calculate cost of FBS
- General expenditure (cost benchmarking and promoting coordination and good practice)
 - Eg. Management of their consumption of services through pre-paid electricity meters and water management devices



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LGFF

- Agree with concept of structural fiscal gap and actual fiscal gap
- Conditional Grants: need to measure effectiveness and returns on this investment ... no effective assessment
- Role of district municipalities need to be clarified – confirmed in SALGA state of finances analysis
- Issue of unfunded mandates needs resolution



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LGFF (2)

- LGES able to fill the operating account gap
 - No research done to be conclusive
 - No operating expenditure for 15 years of capital expenditure
 - ‘City Leadership Course, organised by NT, indicated that Cities are under severe operating expenditure pressures
 - This can be attributed to unfunded mandates
 - The in migration of poor households to the cities adds to this pressure
 - The consequence is reduced Capital Budgets in order to meet unavoidable O&M expenditure or lack of maintenance of existing infrastructure
 - **In Easter Cape and Free State, and probably other provinces, Provincial LG Departments have been bailing out small municipalities that are not able to meet their O&M obligations (including other operational needs)’**
 - No conclusive evidence that the LGES is sufficient to address the opex gap



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Proposed high level structure for the LGFF

- Agree with the two options of a gap filling approach and a performance-based approach
 - As long as gap filling addresses getting the basic right in a typical smaller/rural municipality
- Performance-based incentives
 - Will work in a stable environment
 - Requires credible information for monitoring and evaluation systems in all spheres of government
 - EPWP experience (now funding allocated upfront) erodes incentive effect
 - Unintended consequences to performance grants



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Conclusion

- Key sources of revenue for smaller municipalities
 - Design a mechanism for **transferring electricity surcharges** in Eskom supply areas directly to municipalities
 - Need to identify **alternative tax instruments** for rural municipalities where the MPRA can not be implemented due to communal rights
- Small and mainly rural municipalities which are **unlikely to develop significant revenue bases should receive revenues commensurate with their expenditure** responsibilities through the grant system
- Fiscal stress in large cities and towns relates to **economic development and infrastructure** – need alternative revenue sources
 - Implementation of a Local Business Tax should be expedited
- Focus on implementation of many previous FFC proposals: categorisation of roads, unfunded mandates, better reporting on conditional grants, devolution of housing and transport, etc.