



# Financial and Fiscal Commission Local Government Fiscal Framework Public Hearings

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## Group 2

# Group 2 – Issues to Consider

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- Fuel levy
- Debt finance regulation
- Possible new debt financing mechanism
- New local business tax
- Regulation of own revenue sources
- Improving fiscal effort
  - Smart metering
  - Eskom and debt collection
  - Affordability of services
- Grap 17
  - Repairs and maintenance issues

# Fuel Levy

- Should it be a conditional transfer or an unconditional allocation?
  - It is also based on the amount of fuel sales within munic's jurisdictions.
  - Its does not form part of the national pool, however it is part of taxes belonging to national.
  - It is currently distributed to metros: Because the amounts would be too small for other munic's;
- The determination for it being conditional or non conditional should depends on;
  - The amount versus
  - the extend of roads a municipality is responsibility for.
- It is concluded that it is an unconditional grant and its recommended for a broader spread beyond metros and spend on transport and roads related expenditure.
  - Research needs to be done to asses the extend to which smaller munic's can benefit from the fuel levy.

# Debt finance (DF) regulation

- Should there be stricter or loose regulations around DF?
- Principles:
  - There should be an allowance for foreign investment.
  - Strict use of local currency.
  - Borrowing for capital expenditure is encouraged for projects that will generate income therefore self sustaining. And should be used for its originally intended purpose.
- How do we encourage lending/investment
  - Can we force lenders to lend more?
  - Credit enhancement by introducing credit structures for munic's to be able to borrow, e.g. bond pulling DBSA is a framework with a tax incentive to investors
  - Provision of guarantees from institutions to improve credit rating but guard against bailouts. Investigate the possibility of incentivising creditworthiness
  - Tax incentives/exemptions for people to invest in our municipalities
  - In order to assist ailing smaller municipalities the mandate of the DBSA should be extended to allow these municipalities gearing for funding

What is the break even point for gearing on own revenue

# New local business tax

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- Development Levies and local business tax work is currently underway

# Improving fiscal effort & Regulation of own revenue sources

- Is there a need for further legislation to assist municipalities to collect revenue?
  - Smart metering
    - Sterile Debt
  - Eskom and debt collection
    - The use of electricity as a leverage to regulate non-compliance
    - Smaller municipalities with small load factor are penalised and this should be reviewed
  - Affordability of services
    - Where is the line to be drawn for affordability and social responsibility
- FBS-there is a need to design policies that are able to distinguish between those that can and can't pay. The question is what is the right mechanism for making such a determination.
- It is recommended that a proper/better research be done to assess what is not working and ensure that stipulations of the MSA are implemented including a review of FFC's past recommendations

## Repairs and maintenance (RM) issues

- Municipalities are not spending sufficiently on RM.
  - Should there be a ratio (operational budgeted) of spending to enforce?
    - A shortfall should be funded through a conditional grant.
  - We need to know the extend of our assets, ownership and their value at a national level.
    - Government should take stock of asset register as a priority to assist munic's to have a better R&M
    - Who owns what? i.e. determination of ownership.
  - Do we really know where to put incentive grants?
  - Can't we make grap 17 a nationwide project?
    - this will be expensive to keep up with.
  - A study be done to determine what should be the measurement to use?

# General/Cross Cutting Issues

- Cross cutting issues and other issues to remember
  - Are objectives of the system adequate? Yes
  - Incentives in the system
    - Incentivise for borrowing based on performance & should take account of externalities that may not be in the control of a munic. Therefore reducing reliance on transfers
    - Incentivise investment on maintenance thus reducing replacement of infrastructure.
    - Build infrastructure that responds to or support the local economic base
  - Capacity and capabilities in the system: further investigation
    - Do we have sufficiently qualified personnel and is there enforcement of a requirement to appoint these people?
    - That there be oversight over the requirement by professional institutions.
    - That there be benchmarking to standardise for qualification requirements
  - Urban/rural aspects of instruments and options
    - rural munic are more challenged
  - Link to general options of gap filling and performance
    - A Hybrid of options is recommended- because no one policy fits all and there is a spectrum of options from one end to the other.
      - Optimise performance and optimise the grant



# Questions for Groups

- What are the critical instruments and stakeholders in the LGFF with respect to group topic?
  - Debt finance, cost regulation, fuel levy, optimise own revenue collection, grant optimisation, partnership with banking institutions
- Are instruments important or a constraint in the system? Both
  - Legislative and performance constraints
- Are there additional instruments to be considered?
  - Local business tax and Developmental charges
- Are the options proposed for existing instruments adequate? Yes/no
  - It depends where you are on the continuum of your revenue enhancement
- Are the options proposed implementable and who would be the primary driver? Yes but the practicalities of it needs further research.
- Are there additional options for instruments to be considered? Yes.
  - Incentivise for borrowing and reviewing of regulation to assist munics to optimise collections.
  - Political assistance to incentivise.



Thank You