



Group 1

The Local Government Equitable Share and Conditional Grants

Local Government Fiscal Framework
Public Hearings

04 October 2011

LES: Current Challenges

- **Constitutionality:** What the Constitution envisage the DoR and LES intended to do in LG?
- Look at both the vertical and horizontal split in the division of revenue
- **Municipal Demarcations:** Consider the economic base of municipalities
- **Data:** Outdated data informing the equitable share allocations
- Common understanding of **fiscal capacity and effort**
 - Fiscal capacity of municipalities and fiscal transfers
 - Fiscal capacity has nothing to do with the LES
 - Fiscal capacity is a moving target in a less diversified rural economy



Challenges and effort to collect revenues

LES: Current Challenges

- **Different Municipal Capabilities:** Poor municipalities with no systems – how do we factor into grant design.
- Plans and systems to deliver
- **Capacity:** Municipal capacity and institutional arrangements
- **ED:** Differentiated approach acknowledging municipalities with the potential to stimulate growth
- Pull and push factors in certain municipalities: certain municipalities inherently have greater economic growth potential than others
- **Cost differentials** of providing a service (short and long term marginal costs)
- **HR:** Certain municipalities with the potential to attract staff and differentiated bargaining and salary levels

LES: Current Challenges

- **LES & CGs:** Technical implementation of the CGs using the LES because of lack of revenues
- **Development component of the LES**
 - Studies and data are needed to activate and channel the development component
- **Backlogs** have not been adequately dealt by the LES thus perpetuating the apartheid spatial plan
- Equity in the allocation vs. equity in service delivery (differentiation in the level service)
- Better definition of poverty and indigency:
 - Indigent policies linked to the social security data.

Key Principles

- What the Constitution envisage the DoR and LES intended to do in LG
 - Should the LES be formula driven, policy priorities driven or macroeconomic consideration
 - Look at both the vertical and horizontal split in the division of revenue
- Maintenance / lifecycle costing of infrastructure budget allocations
- Systematic, transparent and predictable way of adjusting variables in the LES
- Monitoring and performance of conditional grants as well as incentives for good performance
- Transparency in the allocation of conditional grants
- Reduce the turnaround time of turnovers

Key Principles

- Communication about the conditional grants
 - Design, allocations and management
- Secondment of personnel to poor performing municipalities (not only in cases of Section 139 interventions) i.e. not just financial support but skills etc
- Sector departments must provide monitoring and capacity support as part of grant allocation and administration
- IGR Coordination: Ministers and MECs playing an oversight on IDPs and linkages to PGDPs

Knowledge Gap/Areas of Research

- Understanding Costs Disabilities e.g distance
- Studies informing poverty data
- Consistent and predicable review of data informing the equitable share allocations (e.g. measure of poverty)
- Understanding of Fiscal Capacity and Fiscal Effort
- Studies and data needed to activate and channel the development component
- Sharing of the fuel levy (design, transparency and allocations)
- Variables underpinning the allocation to each municipality should be made public