FINANCIAL AND FISCAL COMMISSION

Group 2 Municipal Revenue Sources and Borrowing

4 October 2011

For an Equitable Sharing of National Revenue

1. Problem Drivers and Symptoms

- Limited tax base;
- Inadequate property valuation methodologies; tendering procedures; under-valuations, over-valuations, non-valuations of traditional, non-bondable, rural properties;
- Organized rates boycotts + service delivery protests implying lack of social compact over service delivery;
- Little municipal control over electricity, water tariff setting;
- Local economic development methodologies undeveloped, action plans do not follow on from strategies; lack of alignment with provincial and national development strategies;
- Borrowing requires alienable collateral, which many municipalities do not have.

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2. Principles for Resolution

- Greater degree of communication, consultation with   and participation by residents[particularly the rich and poor] over issues such as the relationship between property valuations and rates, and spending of revenue through the IDP process
- “Untraded, unrecorded” market values especially in communally-owned rural areas, and their links to [title] deed registration process;
- One common platform for financial, human resource[and operational] recording [IT] system for all municipalities to ensure consistency and enable financial [and delivery] management capacity;

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2. Principles for Resolution

- Uniform system of asset listing, valuation and state of repair for all municipalities. This creates the necessary database for tariff setting. Greater emphasis required on the cost side of the cost-benefit equation for infrastructure investments. In-house monitoring and evaluation of consultants in identifying investments;
- Expanding the tax base thereby implying need to generate own revenue including new taxes such as local business tax, development charges, discriminatory site tax;
- Borrowing only for assets that will yield a stream of revenue to enable both repayment, and their continuous maintenance and operations;

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3. KNOWLEDGE GAPS

- Why do market, bank and municipal values differ? How can [traditional] rural properties be valued?
- How do the relationships between traditional and municipal councils function in practice, especially in relation to property rating and service charging?
- What skills are required to undertake valuations, what support mechanisms from national government?
- What levels of cross-subsidization are feasible in respect of property rates, electricity and water services?
- What is a credible level of consultation or communication to prevent such breakdowns of the social compact?

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3. Knowledge Gaps

- Review of regulatory framework for borrowing mechanisms (e.g. Issues of income-generation, liquidity, cash flow);
- Quantify infrastructure backlogs for determination of grant funding;
- Did removal of RSC levy exacerbate a pre-existing fiscal gap? Are there other sources of revenue?

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