

Business Day

Municipal funding model ‘needs a rethink’

by [Linda Ensor](#), 23 April 2013, 08:17

THE government needs to adopt a more differentiated approach to funding local government in order to take account of the differences in economic, social and demographic circumstances, Financial and Fiscal Commission chairman and CE Bongani Khumalo said on Monday.

The existing funding formula for local government was not sufficiently sensitive to the unique circumstances in each of the country’s 278 municipalities. It did not consider poverty and economic activity levels or the capacity of municipalities — urban, rural, large and small — or their ability to generate revenue and perform their functions.

The formula needed to be more flexible to assist municipalities with challenges and changing circumstances, according to a report, Sustaining Local Government Finances, which was released at a media briefing by Mr Khumalo.

The findings and recommendations of the report emerged from engagements with stakeholders over the last two years on the local government fiscal framework. They will form part of a review of the local government system which the Department of Co-operative Governance and Traditional Leaders is undertaking. The review considers both the financing of and functions assigned to local government.

The commission, which makes recommendations on the division of revenue among the three spheres of government and provides advice to organs of state on any other fiscal matters, also found the system of funding was not sufficiently sensitive to changes on the ground, such as rapid urbanisation.

The data was not updated often enough, the commission said. The funding formula was changed on the basis of the 2011 census, but this was insufficient, as a census only took place every 10 years.

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

The Financial and Fiscal Commission called for a review of the system of conditional grants, which it found were perennially spent inefficiently. The multiplicity of grants should be rationalised and consolidated, Mr Khumalo said.

Another recommendation of the report was that dedicated provision should be made for infrastructure maintenance. This was inadequately budgeted for in the past and even when it was, it was often not spent.

The commission also addressed the problems experienced by municipalities in collecting revenue because of high levels of consumer debt and poor determination of tariffs. It proposed a combination of punitive and innovative methods to collect revenue 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.

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