



Media Release

SUSTAINING LOCAL GOVERNMENT FINANCES: MAKING LOCAL GOVERNMENT WORK!!!

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For an Equitable Sharing of National Revenue

[08 March 2012] Stakeholders in Agreement on Financing Challenges in Local Government

Outcomes of the Financial and Fiscal Commission's First Public Hearing

As municipal service delivery failures become more apparent, numerous service delivery protests by communities are plaguing the local government sphere and could threaten the social and political wellbeing of the country. One of the challenges afflicting service delivery is the general perception that the current structure of the Local Government Fiscal Framework results in inappropriate funding of certain municipalities. The Local Government Fiscal Framework lies at the heart of the local government sector and needs to be flexible enough to cater for the needs of municipalities and dynamic enough to account for changes within the sector and to meet current challenges and policy priorities.

The Local Government Fiscal Framework is defined in the Money Bills Amendment Procedure and Related Matters Act of 2009 as the aggregate revenue arrangement or funding framework of local government relative to the aggregate expenditure mandates and responsibilities of the sphere. The differences among municipalities affect the Local Government Fiscal Framework, as the ability of municipalities to generate their own revenue varies markedly. Urban municipalities (represented by the metros and secondary cities) have greater levels of economic activity, employment and a 'richer' demographic profile, which means that they are able to collect more own revenues. In contrast, poor, mainly rural municipalities are characterised by high levels of unemployment and poverty and low levels of economic activities, making them more dependent on grants from National Government. In addition to revenues, the expenditure functions and powers assigned to different types of municipalities vary, with metros and secondary cities having greater decision-making powers for planning housing and transport infrastructure. Municipalities fund their expenditure responsibilities using own revenues, supplemented by intergovernmental transfers from National Government and private financing via credit markets. Local government revenues consist of own sources, such as property rates, user charges (e.g. For water), unconditional grants (the major one being the local government equitable share), conditional grants and municipal borrowing.

To better understand these issues and to explore more effective and efficient alternatives, the Commission released a draft problem statement on the financing of municipalities and the requirements of the Local Government Fiscal Framework. The draft problem statement was presented for discussion at a public hearing, which was held on last year in Limpopo Province and attended by 75 stakeholders from across the three spheres of government. For the Commission, this is just one mechanism that it has at its disposal to execute its mandate, with the aim of contributing to the mainstream policy debate. The process also provided a rare opportunity for stakeholders to reach a consensus on research and policy issues pertaining to the Local Government Fiscal Framework in order to develop a structured research agenda going forward.

What were the problem areas identified by stakeholders?

All stakeholders at the public hearing agreed that the main issues affecting the financing of the local government sphere are: differences among municipalities, in their revenue-raising ability as well as their expenditure responsibilities (especially related to infrastructure investment); the local government equitable share formula, in particular whether it takes sufficiently into account municipalities' different levels of

expenditure and revenue; and the effect of increased transfers to local government on municipal own-revenue effort (for instance, the local government equitable share's share of nationally raised revenue has been growing faster year on year relative to national and provincial government's share).

Stakeholders were adamant that a differentiated approach is required for the funding of municipalities, taking into consideration the different underlying characteristics, including spatial factors, population density, topography, level and type of economic activity and historical redress. There was also a general consensus for a review of methods in which nationally raised revenue is shared between the three spheres of government as well as between the various municipalities. This included a review of all the components of the formula currently used to distribute the local government equitable share and the need for frequent census-quality data.

Municipalities, in particular, present at the hearings raised the concern over the administrative intensities associated with a plethora of conditional grants flowing to the local government sphere. There were also concerns over the current status in terms of municipal own revenue generating instruments. This included a review of the current sources of own revenues and the subsequent regulation of such sources. It was a concern that the current local government fiscal framework was not sensitive to the financial constraints in both urban and rural areas, an issue that should be evaluated fairly. The constant service delivery protests indicate a lack social compact over the delivery of services. This concern is further exacerbated by the fact that municipalities need to provide services to households that cannot pay such services thus posing a financial risk to the municipality.

One of the major concerns raised during the hearings was that municipal planning, operations and reporting are frustrated by fragmented funding and a lack of coordination among other spheres of government, regulators and state-owned enterprises. This included the increasing cost pressures being faced by municipalities due to large increases being implemented in electricity and water tariffs by various state-owned enterprises and other factors that municipalities have no direct control over. It is thus important that any review of the Local Government Fiscal Framework should be informed by a review of the institutional framework.

The Commission's response and way forward

The aftermath of the public hearings provided the Commission and various stakeholders with a general consensus on the problems and challenges inherent in the funding system of local government. The Commission has come with a set of principles to inform various research gaps that is evident in the policy arena. The first public hearing was thus a major success in highlighting the research needed to inform policy options and recommendations to ensure municipalities are financially well capacitated to undertake their service delivery mandates.

Going forward, the Commission will identify an initial set of policy options and recommendations which will be considered at a second public hearing. It is hoped that this research will help precipitate urgent action by policy-makers to respond to vulnerable municipalities in fiscal distress and to sustain improvements in extending access to and quality of basic services. The structuring of the Local Government Fiscal Framework lies at the very heart of the constitutional vision of developmental local government and the day-to-day quality of life of ordinary South African citizens.

To read the entire report, go to

<http://www.ffc.co.za/index.php/media-a-events-interactive/public-hearings/local-government.html>

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