



FFC PRESENTATION TO SALGA LIMPOPO  
MUNICIPAL FINANCE WEEK  
27-28 FEBRUARY 2014

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# OUTLINE

1. Role and Function of the FFC
2. FFC work in the LG sphere:
  - LG Fiscal Framework
  - Local Government Equitable share
  - Unfunded Mandates
  - Infrastructure
3. Current LG research being undertaken by the FFC



# 1. THE ROLE OF THE FINANCIAL AND FISCAL COMMISSION

# ROLE OF THE FINANCIAL AND FISCAL COMMISSION

- Financial and Fiscal Commission (FFC)
  - Permanent statutory body established in terms of Section 220 of Constitution
  - FFC operational since 1995, first Submission on Division of Revenue in 1997
  - Independent and subject only to Constitution and the law
  - Must function in terms of an act of Parliament
- Mandate of FFC
  - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation

# HOW FFC INFLUENCES POLICY

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- Identify weakness within the Intergovernmental Fiscal Relations (IGFR) system
- Propose evidence based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy
- Information dissemination – invitations from nine provincial legislatures
- Interact with various committees within parliament



## 2. KEY LG-RELATED RESEARCH CARRIED OUT BY THE FFC

# A. REVIEW OF THE LOCAL GOVERNMENT FISCAL FRAMEWORK

- Why a review of the local government fiscal framework (LGFF)?
  - To propose solutions as to how the LGFF can be configured to appropriately fund the various needs of different types of municipalities so as to ensure that they are financially and fiscally well capacitated to fulfil their constitutional obligation
- The Review Process
  - Two sets of public hearings were held
  - First public hearing outlined the problem statements within funding system
  - Second public hearing explored options to solve problems raised
- Commission prepared problem statement which was used as a basis for the first Public Hearings
  - A technical report was developed for discussion at the second Public Hearings
    - Stakeholder inputs were processed
  - Report was finalised and tabled in Parliament on 19 April 2013.

# SIX KEY OUTCOMES OF REVIEW

1. The LGFF requires a differentiated approach
  - Recognise huge variation in the distribution of economic activity and socio political profiles of municipalities
  - Reward good performance and sanctions underperformance
2. The aggregate amount covering operational expenditure is adequate, but needs to be targeted better
  - The Commission supports the LES formula review and is confident that it will address the previous problems. In particular rural municipalities will receive allocations more commensurate with their fiscal needs
3. There is a vertical fiscal gap driven by capital expenditure and rehabilitation needs
4. Commission is concerned about the revenue situation in municipalities
  - Increased dependence on grants even in metros
  - Lack of own revenue instruments
5. Conditional grants framework needs to be reviewed
6. Transitional implementation arrangements are required to achieve an effective LGFF



- Effective and efficient spending of funds – particularly rural municipalities
- Improve capacity building initiatives and monitoring and evaluation procedures
- Ensure MFMA and MSA provisions for competent municipal officials are enforced



## B. LOCAL GOVERNMENT EQUITABLE SHARE

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- FFC has a long history of making recommendation on the local government equitable sharing formula.
- FFC was involved in the most recent review of the LES formula
  - Part of the steering and technical committee that reviewed that formula
  - FFC still part of technical committee that continues to review the formula

## C. UNFUNDED MANDATES IN THE LOCAL GOVERNMENT SPHERE

### **Schedule 4 and 5 of the Constitutions:**

- Relationships between spheres of government.
- Allocation of responsibilities for functions
- Powers and functions can be allocated through assignment, delegations or agency
- Delegations and Agency most commonly used to transfer powers to local governments
  - i.e other core functions and services provided which in terms of Constitution fall under national or provincial

National government often delegates functions to municipalities without financial assistance.

- Unfunded Mandates

## C. UNFUNDED MANDATES IN THE LOCAL GOVERNMENT SPHERE

- Constitution assigns functions as exclusive national or provincial, concurrent or shared between spheres:
- Research has shown that:
  - Legislative decisions can impose duties on local government i.e. Libraries, Housing, Roads, Primary Health Care, Hostels and Museums.
  - In practice there has been less clarity in the assumptions of roles and responsibilities.
  - Clarity in responsibility and management of public resources is important : Accountability, transparency, reduce duplication and competition between spheres.

## C. UNFUNDED MANDATES IN THE LOCAL GOVERNMENT SPHERE

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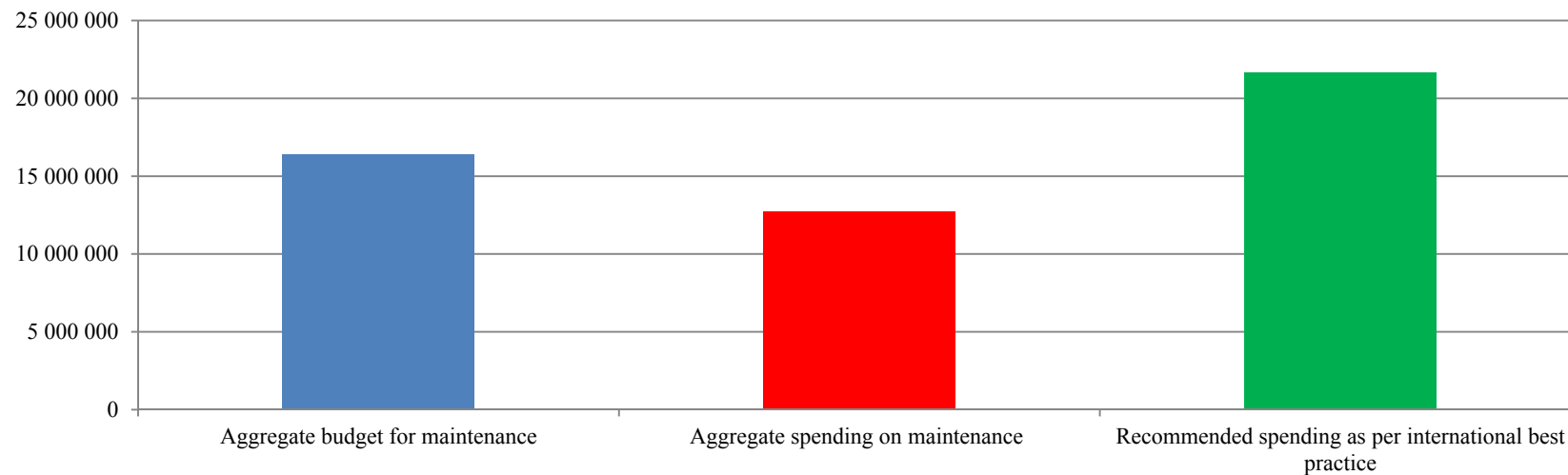
- Unfunded mandates hinder the developmental role of municipalities
- ‘Creeping assignment’ – municipalities participating in national/provincial development programmes without sufficient funding and other resources
- Research show that :
  - Provinces: lack of funding, staff qualification issues, inability of individual libraries to choose own books, libraries regarded as liabilities
  - Municipalities and Metro’s : Library staff paid by municipalities (80% of the budget for salaries and allowances)

## D. MUNICIPAL INFRASTRUCTURE

- Importance of infrastructure as a key lever for accelerating growth
  - FFC recommendations for 2009 division of revenue
  - Equally important is maintaining and rehabilitating existing/new infrastructure to ensure sustainable service delivery
    - Critical given commitments and role of infrastructure in attaining goals set out in National Development Plan (NDP)
- Challenges of spending on municipal infrastructure in South Africa are driven by among other things
  - Significant backlogs
  - Underspending on capital budgets
  - Low spending on repairs and maintenance
  - Generally low technical capacity (e.g. engineers) to guide implementation of infrastructure projects
- In 2012, the FFC set out to assess whether municipalities spend adequately on asset care activities – if not, what can Government do to encourage greater investment in maintaining/renewing municipal infrastructure?

# KEY FINDINGS FROM RESEARCH ON MUNICIPAL INFRASTRUCTURE

## Budgeted Versus Spending Versus Benchmark Allocation for Asset Maintenance as at 2011/12



## Summary of Estimated Renewals Backlog

Target Condition Standard		Water and Sanitation			Electricity		
		Amount	% CRC	Years	Amount	% CRC	Years
1	Optimum	R39 billion	19%	10	R 41 billion	22%	11
2	Sub-optimal	R19 billion	10%	5	R 25 billion	11%	7
3	Absolute Baseline	R4 billion	3%	1	R 8 billion	5%	2

## KEY FINDINGS FROM RESEARCH ON MUNICIPAL INFRASTRUCTURE [CONT.]

- LG asset management regulatory framework extremely limited
  - Between 2006 and 2008 there was focus on infrastructure asset management
    - CoGTA published LG Infrastructure Asset Management Guidelines. Since publication, not updated or actively promoted
    - Construction Industry Development Board published National Infrastructure Maintenance Strategy – no evidence of implementation
    - Government Immovable Asset Management Act (GIAMA) – excludes LG sphere
  - LG sphere in need of legislation that covers the wide scope of immovable assets in LG and is up-to-date with latest developments on international asset management standards



### 3. CURRENT LG RESEARCH BEING UNDERTAKEN BY THE FFC



# LG-RESEARCH BEING UNDERTAKEN AT THE FFC

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- Recommendations through the Commission's annual submissions on the division of revenue cover a wide array of areas and provides critical analysis on policy-relevant issues for policy-makers at all levels of government, for example:
  - Alternative revenue sources
  - Debt management
  - Identification of distressed municipalities
  - Function shifts
  - Climate change and LG
  - Gender budgeting in LG
  - Capacity Constraints in LG
  - Budget analysis
  - Efficiency improvements
  - Improving expenditures

# CURRENT LG PROJECTS

- The current LG-specific research projects are underway and recommendations emanating from the research will be tabled as part of the Commissions annual submission for the 2015/16 division of revenue
  - Demarcation and Financial Viability of Municipalities
  - Identifying the Funding Constraints in Municipal Capital Investments
  - The Impact of Electricity Price Increases on Municipalities



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AND FISCAL  
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THANK YOU