

# **“SUSTAINABLE FINANCING OF LOCAL GOVERNMENT”**



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## **Review of Local Government Fiscal Framework Public Hearings – Limpopo Province**



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# Challenges Facing City of Cape Town



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- Urbanisation : in-migration of poor
- Public Transportation linkages
- Poverty Alleviation
- Land for housing development versus urban sprawl
- Safety and Security
- Safeguarding Bulk Supplies of Electricity and Water
- Ageing infrastructure replacement / maintenance
- Biodiversity Protection
- Economic Growth investment versus Free Basic Services / Social Development
- Formal housing versus housing upgrades – inadequate state funding
- Legislative Framework – including “oversight burden”

## Financial / Legislative Constraints:



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- Supply Chain Management and AT Regulations, “one size fits all”
- Annually approved Inter-Governmental Transfers
- Inadequate Equitable Share (ES) for Free Basic Services demands
- Lack of a National Urbanisation Policy
- Private Public Partnerships (PPP) processes protracted
- SOE autonomy frustrates City long-term planning
- Elasticity of current taxation options restrictive
- Outdated data used for ES formula – subjective based adjustments
- Community affordability – balancing rates and charges burden



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## Problem Definition Questions - Differences in Municipalities: Metros

- Acknowledgement of the different roles of municipalities
- Metros are already largely self-financing - State funding provided for poverty alleviation, ES for FBS provisions – Constitution requirement
- Metros have greater social needs, higher percentage of poor
- Government Funding.....

## Equitable Share

- Transfers don't fully meet the needs of the poor for basic services
- Data used is out-dated
- Subjective adjustments made in the formula

## Conditional Grants

- Fluctuate according to changing national allocations/themes
- Performance can be reward driven – is now perhaps? (IRT)

# Municipal Own Revenues



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- Existing grant transfers are inadequate, so do not restrict the generation of “own revenues”
- Affront to suggest that municipalities “lack effort” to raise revenue
- RSC levies NOT appropriately replaced. Fuel Levy basis is unworkable
- Local Business Tax reasonable replacement for RSC Levies - same product
- Outstanding debtors is a result of poverty, not municipalities’ inefficiency
- Misnomer that some municipalities are “under-borrowed”
- Gearing is a product of affordability and service needs – strategic approach to poverty alleviation – economic growth versus service subsidies
- Role of DBSA over-stated – plenty of lenders if borrowers viable

## Other Issues

- Impact of in-migration is key to challenges faced by metros – no National Urbanisation Policy to standardise response
- Inter-governmental failures contribute to funding shortfalls
- Service tariffs are set according to consumer affordability and cross-subsidisation of FBS impacts on Repairs and Maintenance

## Response to Generic Questions:



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1. Funding is the **most** pressing issue for municipalities
2. “One size fits all” cannot work for 278 diverse municipalities
3. FBS funding is a major concern for sustainable financial planning
4. Local Government (Metros) are over-regulated in many respects and complex compliance requirements inhibit service delivery
5. Eskom as an Electricity Distributor inhibits debt management actions and uniform service provision
6. Current Financial Framework distorts equity and accountability
7. ES formula is subjective and inaccurate, conditional grants uncoordinated and inconsistent, borrowing constraints a misnomer, it is about financial viability
8. National Policy needs to be developed for urbanisation / migration including funding of FBS and incorporation into Housing Policies
9. Proven financial sustainability needs to be rewarded by relaxed regulatory standards (SCM)
10. Certainty in fiscal transfers required – enforceable 3-year DORA



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**Thank You**