



cooperative governance

Department:
Cooperative Governance
REPUBLIC OF SOUTH AFRICA

SUSTAINABLE FINANCING OF LOCAL GOVERNMENT: UNDERSTANDING THE SYMPTOMS AND DRIVERS OF PERFORMANCE PROBLEMS IN LOCAL GOVERNMENT

PRESENTATION TO FFC on:

**Local Government Fiscal Framework Hearing
Monday, 3 October 2011
Ranch Resort: Limpopo**

OVERVIEW OF PRESENTATION

1. Introduction
2. Areas for discussion based on questions raised
3. Starting point
4. Lessons Learned
5. Conclusion and Recommendations

Introduction

- The DCoG is supportive of the process undertaken by the FFC to review of the Local Government Fiscal Framework
- The DCoG and the National Treasury are proposing a Summit to review the local government functional and fiscal framework.
- The DCoG agrees that it is important that the Commission plays an active role in these discussions while at the same time running its own processes that maintains its objectivity and role as a unique player in the general policy arena.
- Questions for the deliberations are acknowledged

Root Causes of Municipal Problems as identified during the LG Assessment

Systemic Factors

(two tier system; limited revenue base; demarcation)

Legislative Factors

(inappropriate legislation; over- and under-regulation)

Political factors

(inter- and intra-political conflicts and polarisation)

Accountability Systems

(lack of performance management systems; poor oversight; poor community participation mechanisms)

Capacity & Skills

(lack of capacity in small & rural municipalities)

IGR support & oversight

(fragmented national and provincial support; weak oversight)

Intergovernmental Fiscal Regime

(poor grant design & limited impact; grant dependency)

Questions to respond to in this hearing

- Is the problem statement appropriate and more pressing?
- Is the current LGFF catering for the diverse character of municipalities?
- What are the current inherent policy factors hindering the appropriate funding to municipalities?
- Is the current legislative framework on Fiscal matters impacting negatively or positively to municipal performance?
- What other issues in IGF weaken the performance of munics?
- Is the FF achieving the balance between equity and concerns and providing incentives for EE and Accountable governance?
- Are current revenue instruments afforded to municipalities sufficient and appropriately implemented?
- Is the LGFF dynamic to cater for the continually changing LG?

Differences across municipalities

- The department acknowledges the categorization as per the Constitution
- The acknowledgement also poses questions:
 - Is the constitutional categorization the most relevant?
 - What about other categorization by DCoG, NT, MIIF etc?
 - Do these other categorization have a legal base?
 - How will these influence the LF Fiscal Framework?
- How have the preliminary analysis informed the issues for discussion?-Which we agree with as DCoG

Local Government equitable Share

- DCoG broadly agrees with the issues for discussion
- DCoG would want to raise a further question for discussion as the envelope that goes to the Local government environment as a critical discussion point.
- We are of the view that until the issue of the vertical share/split is dealt with the horizontal split will continue not responding to demands of local government.
- The differentiation on the horizontal split should therefore take cognisance of the share that flows to the LG sphere

Conditional grants

- Agree with the issues raised to inform issues for discussion
- The issues for discussion are agreed with to a certain extent.
- The consolidation of the MIG is still relevant- what should be addressed is how the proliferation of various grants flowing to municipalities have been managed and what role have national and provincial government played in supporting receiving municipalities
- The consolidation of conditional grants flowing to municipalities will reduce the number of conditions that municipalities have to comply with

Municipal own revenue sources

- Our comment will relate to whether there should be regulation of certain revenue sources:
- Our view is that you need certain sources to be regulated so that tax payers are not abused
- Certain institutions like PBOs should be protected by setting particular threshold through ratios
- There are certain municipalities that do not have any economic activity-whichever revenue instrument adopted will not assist them

DCoG and National Treasury work

- Functional framework
 - Examines the powers and functions assigned to municipalities
- LG fiscal framework
 - Three main sources of municipal revenue: own revenue, transfers and borrowing
 - Transfers help fund redistribution and national government priorities
- Policy making in government
 - Examines how public policies are developed by national government and the challenges of policy coherence as they impact on Local Govt
- Size and shape of municipalities-
 - Explores the different characteristics of municipalities
- Differentiation-
 - Focus in designing our local government system was on bringing together the different and unequal systems of apartheid local government

Conclusion

- The DCoG broadly agrees with the areas identified for discussions
- In addition to the issues to consider including intergovernmental transfers and taxation powers, and municipal own revenues etc. an additional area that should be considered is:
 - impact of existing local government revenue instruments
 - recommendations for government to support vulnerable municipalities without deviating from the principles underpinning the intergovernmental system
- DCoG agrees with the challenges identified for discussion regarding the LGES.
 - In addition to the issues identified for discussion, these hearings could propose how Government should address the issue of the lack of frequent data to inform the various formulae

Conclusion

- The DCoG broadly agrees with the problem statement
- With regard to the robustness and dynamism of the local government fiscal framework:
 - The DCoG proposes that the hearings come up with pointers that should be captured in the funding framework when there is a need for a municipality change in category or a municipality or category of municipalities to be funded differently
- Government is concerned about the expenditure on repairs and maintenance.
 - Discussions on repairs and maintenance should be linked with the responsibilities of asset management in municipalities
- While there is no position regarding answers that should inform recommendations, the issues resonate very well with what we are currently doing on LGFFR- If the recommendations are agreed to then the FFC might find that the majority of its recommendations to BF and MinComBud are agreed to