

Local Government Equitable Share and Conditional Grants Focus Group Notes

1. Understanding the problems and drivers

- Lack of systems in municipalities is one of the challenges. Other challenges relate to the inability of small and poor municipalities to attract and retain skilled individuals and this hampers ability to plan and implement projects and programmes. These are the challenges that need to be addressed first before tackling funding challenges in the local government as funding cannot resolve these issues. One of the symptoms relates to the inability of rural/poor municipalities to attract and retain skilled professional because their inability to offer reasonable salaries (low salary bracket). The question is to how to capacitate those municipalities to close that gap (institutional arrangements), there is therefore a need to relook on how this challenge can be addressed by the LES. If this cannot be funded from the LES, there is a need to look how this can be addressed through conditional grants.
- Pull and push factors - some municipalities by their nature and economic reasons attract individuals, while others lose individuals. These issues are not taken into account by the LES formula and result in a serious challenge with regards to service delivery needs and tax base.
- Fiscal capacity and fiscal efforts of municipalities should be key on determining allocations from the LES and the conditional grants. The starting point is to understand and clearly differentiate between what constitutes the fiscal capacity and what constitutes fiscal efforts. The current funding framework seems to assume that municipalities put less efforts on the collection which is not necessarily always the case. Funding instruments need to factor these two issues and reward fiscal efforts.
- Costs of providing services – The current funding framework does not consider differences of providing services. The cost of providing electricity to a household ranges between R5000 – R15000. Cost differences are driven by a number of factors including density and distances. Costs difference on providing services should be factored in the LES. A differentiated approach is therefore supported in this regard.
- Demarcation Board and demarcation process – The way in which the demarcation is currently undertaken in most cases creates municipalities for failure. This is because key factors that need to be considered before merging municipalities are ignored. One of those key factors relates to the consideration of the ability of the merged entity to sustain itself through its ability to raise its own revenue (tax base). This is not the case in the current system.
- Data challenges – The current data used in the allocation of funding is out-dated and disadvantages municipalities. Some municipalities and provinces for example Northern Cape commissioned a study

on the population which produced different results with what the Statistics South Africa published. One of the major problems is how to reconcile these two sets of data.

- Conditional Grants – Conditional grants in most cases are provided to municipalities without a top slice for implementation. In some instances conditional grants are introduced without consultations with the recipients and without provision of funding for an on-going maintenance. This put pressure on the funding from the LES.
- Poverty and indigent – The lack of a clear position on what is the current defined as a cut off for poverty line raises a concern as it currently stipulated to be R800, what does this mean for old age pensioners earning above R1000.
- Issue of backlogs – Backlogs are part of indicators and the current local government funding framework does not factor backlogs.

2. What are the principles to guide us on finding solutions/violated

- Funding for maintenance should be built in within the grant
- Factor in in backlogs in the LES
- LES should ensure that municipalities that do not have a tax base to able a municipality to provide basic services do get funding to at least deliver these basic services.
- Adjustment of other variables in the system e.g electricity
- Performance monitoring – rewarding good performance
- Predictability to enable a municipality to plan for 3 years or more as changes create some level of uncertainty.
- Transparency in the actual allocation/calculation of grants. In some instances municipalities would not even know the grant exists
- National and provincial government do not provide support needed by municipalities. Where support is provided is the form of funding which does not actually resolve challenges faced by municipalities.
- Infrastructure delivery and funding are important but the actual delivery of services should involve communities in order for the community to have inputs and participate and take ownership.
- The LES formula should speak to the strategic objectives/policy priorities of the nation.
- Review the whole package of entitlement especially under tight economic conditions.

- Tracking performance and rewarding
- Clear criteria to develop and terminate a grant.
- Genuine cooperative governance and respect across the spheres of government (for example taking each other to the court of law indicates a lack of cooperative governance)

3. Knowledge Gaps

- Understanding what constitute fiscal capacity
- Understanding what constitute fiscal efforts
- Which factors to be included on development component
- Different sets of data base (provincial/municipality versus StatsSA) – how to reconcile these two sets of data
- What is the definition of poverty line/ how is this arrived at and adjusted over time?
- Sharing of the fuel levy (the design, allocation and transparency issues)