



SALGA
South African Local Government Association

FFC Public Hearings on the LG Fiscal Framework

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Overview

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Introduction

- There is common agreement on the challenges regarding the Local Government Fiscal Framework (LGFF), however, there has been little action to actually resolve them.
- SALGA recommended to the 2010 Budget Forum for an independent commission to review the LGFF.
- SALGA believes that there needs to be a fundamental re-assessment of the LGFF
 - to address the serious underlying structural challenges rather than minor ad hoc adjustments to improve operational efficiency in the short term;
 - identify sustainable long term LGFF arrangements.
- The public hearing of the FFC and the LG Summit that is planned by National Treasury and DCoG are important initiatives.



Key Constraints

- Delayed or stalled national processes which prevent finalisation of a sustainable long term LGFF should be concluded as soon as possible to create more policy certainty
 - such as the Provincial and Local Government Policy review, initiated by COGTA in July 2007, restructuring of the electricity distribution industry
 - Processes for housing accreditation
- Reliance on Census information which is only available every 10 years must be reviewed
 - the Community Survey must be improved and conducted every five years after the Census to ensure the availability of credible data to improve fiscal planning and resource allocation for LG
- Legislative constraints on municipal own revenues
 - Rates ratios in MPRA, NERSA tariff structures, norms and standards on surcharges that will be developed in terms of the MFPFA



Need for differentiation

- The proposed comprehensive review of the LGFF should be guided by the principle of differentiation.
 - A commonly accepted categorization of municipalities should be developed and be used to review roles and functions of certain categories of municipalities, in amending the Local Government Equitable Share formula and in targeting certain conditional grants.
- The principle of differentiation should be further embedded within the LGFF to address the financial challenges, facing the different categories of municipalities.
 - The local government turnaround strategy and the outcome 9 delivery agreement are key vehicles for furthering this objective.



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Expenditure assignment

- The relationship between district and local municipalities should be investigated to identify best practices that can be used to inform an appropriate policy framework or to clarify the roles envisaged for district municipalities.
- Resolving unfunded mandates requires proper:
 - costing and budgeting of the services;
 - management of service delivery contracts;
 - fiscal arrangements to be addressed through the LGFF review.
- Studies should be conducted into the accurate long term costs of municipal service delivery, which can vary substantially across municipalities in different service delivery contexts.



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Revenue assignment

- Challenges to key sources of revenue in smaller municipalities -
 - Most are Eskom supply areas and while municipalities provide services, surcharges are not transferred to them
 - Challenges of collecting property rates in most rural municipalities (indigency, low economic base, communal land, etc)
- Small and mainly rural municipalities which are unlikely to develop significant revenue bases should receive revenues commensurate with their expenditure responsibilities through the grant system.
- Fiscal stress in large cities and towns relates to economic development and infrastructure – need alternative revenue sources
- All municipalities should fully exploit existing own revenue sources and explore new own revenue sources through the Municipal Fiscal Powers and Functions Act of 2007.
 - Implementation of a Local Business Tax should be expedited
 - Explore alternative taxation systems in rural areas



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Vertical division of revenue

- There should be a systematic review of baselines to ensure that:
 - revenue allocations to local government as a whole are congruent with its full range of developmental and service delivery responsibilities
 - and the vertical share of local government meets the increasing demand for municipal services.
- This should be coupled with efforts to build the capacity of weaker municipalities to spend efficiently and effectively.



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Equitable Share formula

- Formula reforms should:
 - ensure an adequate LGES envelope that is aligned with LG's service delivery mandate
 - ensure equity of funding for households, capacity and geographical contexts (Constitution);
 - ensure sustainable local revenue bases for local accountability.
- The development component of the formula must be activated
 - Ensuring an increase in resources channelled to the municipalities with the greatest development needs rather than merely the realignment of the relative shares of municipalities within the existing resource envelope.
- The revenue-raising capacity component should be reviewed to ensure constitutionality.
- The Basic Services component of the LGES formula needs to be expanded to include other generally non-profit generating public services that municipalities are responsible for
 - such as municipal roads, street lighting, storm-water management, and fire-fighting services.
- More appropriate poverty lines should be investigated.
 - The differential impact of increased poverty thresholds on rural and on urban municipalities should be recognised and supported by funding mechanisms within the fiscal framework.



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Infrastructure funding & borrowing

- The extent of rehabilitation backlogs should be quantified.
- Introduction of operating and maintenance components into capital grants should be investigated.
- There should be an explicit link between MIG allocations and LGES allocations, especially in smaller mainly rural municipalities.
- Impediments to the levying of development charges should be removed.
 - This would include ensuring that the legislative and regulatory framework is supportive, as well as building the capacity of secondary cities and towns to implement them effectively and equitably.
- Assignment of own-revenue instruments to municipalities (such as the Local Business Tax) is essential to allow them to borrow on capital markets.



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Conditional grants

- SALGA believes there is a need to investigate the streamlining of conditional grants to municipalities.
- While funding through local government conditional grants are welcomed as an important source of funding for municipalities, the way in which it is managed needs to be reviewed
 - Little coordination between grants, e.g. MSIG, FMG and other capacity support initiatives by national government
 - Little account of the impact of the grants, especially on smaller municipalities
 - Local Government is not central to setting the agenda for capacity-building programmes
 - Reporting burden, costly and time consuming
- Conditional grants should be re-assessed as part of the comprehensive review of the local government framework being advocated in this submission, with a view to analysing past performance and improving their operational effectiveness.