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South Africa: MoU Touted As Solution to Improve Revenue Collection

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The Financial and Fiscal Commission (FFC) on Monday recommended that a Memorandum of Understanding be signed between Eskom and municipalities in order to improve revenue collection.

"We believe that having this Memorandum of Understanding (MoU) in place will restore the constitutional responsibilities of municipalities," said the Commission's Chairperson Daniel Plaatjies.

Plaatjies was briefing reporters in Parliament following the tabling of the FFC's submission on proposals for the 2020/21 Division of Revenue "Repositioning Local Government Public Finances" at the end of May.

The tabling of the submission, which is a legislative requirement, highlighted that although the local government sector has achieved comprehensively in terms of bringing government closer to citizens and improving access to basic services to poor households - many indicators suggest that the sector faces many challenges.

Recently power utility Eskom issued a notice saying that it has been forced to halt work on substation repairs as well as maintenance operations in Gauteng. This was due to safety concerns of staff and debt that is on the increase.

Work has been halted temporarily in Soweto's Braamfischer and Klipsruit and well as Pretoria's Winterveldt, among others.

The commission said there are a number of historic questions around the MoU in that South Africa's Constitution is clear that municipalities are responsible for electricity reticulation.

"But there's a historic intervention that was made in 1995 by President Nelson Mandela at the time because municipalities were unable to ensure fast access of electricity to our citizens. The way government was [set up] was not to respond to 40 odd million people. It was in place to respond to a small minority, so President Mandela made the decision that Eskom needed to intervene. That is why in certain municipalities there's an Eskom supply and a municipal supply," he said.

The MoU, he said, will restore constitutional responsibility for better electricity reticulation.

"It's also about dealing with the imbalance that exists in municipalities because electricity in many municipalities is the leverage, so if households and business don't pay their property taxes, then the best leverage is to switch off their lights and that is what municipalities have been using over time."

However, in certain areas, municipalities are not able to do that, impacting on falling revenue collection.

"That is why it is important to have the MoU to continue [service] delivery but also deal with the structural problems as an interim measure."

In other cases poorer municipalities sign memorandums of debt repayment and are often unable to pay off their debt which at times is above what they collect in a month.

"There's a need to change the scales here and you find situations where municipalities are in a debt trap," said the Chairperson.

This also comes as President Cyril Ramaphosa in his State of the Nation (SONA) address last month, spoke out against the boycotting of payment to the utility.

Echoing Plaaitjies' comments, Commissioner Trevor Fowler said the MoU is important in light of a 2013 court case that indicated there was no obligation for municipalities to provide electricity if people did not pay their rates.

"It's not just about who's providing the service, but how it's been managed. That is part of the big challenges we face," said Fowler.

Other recommendations

The Commission - which has the responsibility to advise and make recommendations to Parliament, provincial legislatures, organised local government and other organs of State on financial and fiscal matters - also made several other recommendations.

Among them is that minimum competency regulations must be regularly assessed for tangible impacts from compliance - anchored in evidence-base to legislative requirements.

Also, based on the assessment of the specific needs of a municipality, technical support should prioritise new systems, innovative business process redesign and change management.

The state of municipalities

The FCC highlighted that over years, the local government sector has achieved a lot in terms of bringing government closer to people and improving access to basic services to poor households, although challenges remain.

"In certain municipalities there are pockets of collapse in good governance, whether in service delivery, financial and fiscal management, infrastructure support, or maintenance. However, currently, many municipalities are dysfunctional and barely viable or sustainable," said Plaaitjies.

The FCC highlighted that if municipalities are not adequately funded to deliver services, the end user which is mostly poor households, are going to suffer.

"But also those companies that want to come into municipalities to invest, will not go into that municipality because there is no infrastructure in place," said Plaaitijes.

Local government receives about 9.2% of all the national acquired revenues excluding the revenue that local government is acquiring on its own.

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