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2020/21 Division of Revenue Submission Proposals

REPOSITIONING LOCAL GOVERNMENT PUBLIC FINANCES

MEDIA STATEMENT

The launch of the Financial and Fiscal Commission's (FFC) 2020/21 Division of Revenue Recommendations themed "***Repositioning Local Government Public Finances***", takes place during a period of negative economic growth, increasing levels of poverty and inequality, with consequential severe distress to households. Taken together, these challenges have a huge impact on the revenue-raising and spending capacity of municipalities to comprehensively deliver on their constitutional and other legislative mandates.

The structural and function impact on the mandate of municipalities are amongst others:

- 1) the declining financial and fiscal viability or sustainability;
- 2) the challenges and impacts of LG interventional programmes to functionality; and
- 3) the lack of efficacy in infrastructure investment.

The Commission therefore recommends that:

- a) to improve revenue collected that the credit control systems of Eskom and municipalities must be aligned by means of a Memorandum of Understanding and through the pooling of resources to obtain property valuers for the municipalities

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- b) Development charges, tourism levies, fire service levies and land value capture mechanisms must be added to the list of supplementary allowable local government taxes. Owing to urban area bias, the division of revenue should increase transfers to rural areas. [taxes were rated in terms of good revenue raising criteria].
- c) Minimum competency regulations must be regularly assessed for tangible impacts from compliance – anchored in evidence-base to legislative requirements.
- d) Based on the assessment of the specific needs of a municipality, technical support should prioritise new systems, innovative business process redesign and change management [and a formula mostly focussed on financial viability, which is a necessary but not sufficient condition for municipal success].
- e) The proposed MISA inspectorate should undertake real infrastructure delivery management capability assessments to ensure local government infrastructure efficiency and results.
- f) The concept of city-region development offers some potential lessons for inclusive development service delivery, especially on legal provisions and institutional setup.
- g) There is a need for a government-wide accepted definition of 'municipal functionality', in order to define the right scoping for LG interventional programmes to cause impacts.

The launch today also takes place against the background of the 2019 State of the Nation Address, the replies from all parties on the SoNA, and the President's pointed replies to comments on South Africa's SoNA. The SoNA sets seven national priorities to be addressed in the social, economic and political development of our country; six of those priorities are directly linked to the mandate and performance of municipalities.

The launch of the FFC Division of Revenue Submission Proposals – ***Repositioning Local Government Public Finances*** – also follows on the release of the Auditor-General's

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Report, which provided comprehensive and shocking audit outcome results of 257 audited municipalities, showing that 63 regressed and 22 improved. Only 8% received a clean audit. From the Commission's perspective, these audit outcomes on municipalities reaffirm that the integrity of public finances and the importance of the local fiscal government framework must indeed be restored.

In this annual submission, it is the Commission's assertion – supported by empirical evidence – that the local government fiscal framework (LGFF) is not in synchronization with the constitutional mandate of this sphere and requires renewal and rebuilding.

There are four key areas that underpin the drivers for change recommended by the Commission for the local government sphere:

- 1) The financial sustainability of municipalities;
- 2) Municipal functionality and the interventions invoked to improve the performance of municipalities;
- 3) The effectiveness and efficiency of local government infrastructure management; and
- 4) The potential of "city-regions" to address South Africa's development challenges.

As such, this submission first addressed the implications of the lack of fiscal space for the local government sector in terms of sustainability and viability, which requires a realignment of financial and fiscal fundamentals. Second, the Commission looked at the impact of many local government intervention programmes initiated to address dysfunctionality and improve functionally of and within municipalities. Third, it investigated the reasons for the lack of efficacy in infrastructure investment, such as poor quality and

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reliability of water and inadequate sanitation services, which remain prevalent to date. Finally, the Commission explored the institutional structure and arrangement of city-regions as a conceptual reference for addressing issues of local government weakness.

Over the years, the local government sector has achieved a lot in terms of bringing government closer to people, providing democratic space for citizens of South Africa, and improving access to basic services to poor households. In spite of these initial significant achievements, many indicators suggest that the local government sector still faces many challenges. 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.

The main role of local government is to provide democratic and accountable governance for local communities, provide basic services to communities in a sustainable manner, promote economic and social development, promote a safe and healthy environment, and encourage the involvement of communities and community organisations in the matters of local government. In the main, the local government sphere is the primary conduit for poverty alleviation programmes and an enabler of social development and economic growth within the municipal jurisdiction.

Key Findings of the 2020/21 FFC Annual Submission for the Division of Revenue:

The financial sustainability of municipalities

Regarding the financial sustainability of municipalities, and the effort to close the revenue shortfall, three issues are dealt with: 1) the performance of property rates and constraints to its optimisation; 2) municipal debt management; and 3) supplementary revenue instruments and financing arrangements for local government.

Our quantitative analysis confirmed that South African municipalities are not optimising property taxes. It was found that the property tax collection inefficiencies were relatively high in small towns and rural municipalities, as they were only collecting 40% and 56% of the expected revenues from property rates, respectively. Urban municipalities -

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metropolitan municipalities, secondary cities, and large towns - were found to be the most efficient, collecting 84%, 75% and 62% of the expected revenue, respectively.

On the debt issue, the Commission's view is that debt levels pose a significant risk to service delivery and specifically, the fiscal sustainability of the local government. This is compounded by years of non-payment of municipal services and rates by organs of state. The Commission also underscored the potential of land value capture mechanisms to close the municipal revenue gap.

Municipal functionality and interventions to improve performance

The 2020/21 FFC Submission evaluated the concept of municipal functionality and interventions to improve the performance of municipalities. In the absence of a common definition of functionality of municipalities, the Commission defined functionality within municipalities, with a view to propose a consolidated framework for assessing dysfunctionality, as used by various departments and institutions in South Africa.

The Commission is of the view that municipal functionality should refer to the maintenance and performance of systems, processes and practices in governance, service delivery, financial management, leadership, political management and human resources within a municipality, that yielded high performance in terms of a municipality's legislative mandate. Furthermore, in its submission, the Commission observed that municipal infrastructure programmes are characterised by management and spending inefficiencies that included project completion delays, budget overruns, asset deterioration, and under-utilisation, among others.

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Local government infrastructure delivery management and efficiency

In this submission, the Commission reviewed the local government infrastructure delivery chain and management system with a view to identifying the bottlenecks that have hampered the development of an effective, efficient and sustainable infrastructure programme.

The submission specifically assessed the efficiency of past municipal infrastructure investments and found that:

- a) Regulatory, institutional and management arrangements for the delivery of local government infrastructure were well established;
- b) Resources were lacking;
- c) Municipal infrastructure programmes were characterised by management and spending inefficiencies; and
- d) There was no clear distinction of responsibility and accountability roles between the national department of Cooperative Governance and Traditional Affairs (CoGTA) and other sector departments in the delivery of infrastructure.

City-region and its potential to address South Africa's development challenges

The submission underlines the importance of city-regions in the development of urban areas, both from an efficiency and a sustainability point of view. For successful implementation of the city-region development model, it is vital that it should be driven by municipal cooperation, with policy and economic incentives playing a critical role.

The potential for city-regions is more pronounced in the functional areas of transport, environmental management, waste management collection and disposal, and regional bulk water supply.

Conclusion

In addition to the range of Commission's recommendations in this 2020/21 Division of Revenue Submission – ***Repositioning Local Government Public Finances*** – future interventions in municipalities by the whole of government have to restore integrity, good

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governance and requisite competencies in: municipal systems; the regulatory environment and licensing; service delivery; financial accounting and financial management; realistic and cogent planning; law-abiding and rule-based leadership and management (mayors, councillors, municipal managers, management and other staff); proper and cogent governance systems as required by the Constitution; and municipal laws and other constitutional laws, such as the Public Audit Amendment Act – thereby ensuring adherence to a rule-bound system.

END

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