

Business Day

Government urged to tackle fiscal crisis facing municipalities

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The government needs to find a way to deal with the fiscal crisis facing local authorities, otherwise public services provided by municipalities will have to be reduced in future.

This was said on Wednesday by Michael Sachs, the acting chair of the Financial and Fiscal Commission (FFC), a body established by the constitution to advise the government on the fiscal framework and intergovernmental fiscal relations.

Sachs, formerly head of the Treasury's budget office, together with FFC researchers and the parliamentary budget office, briefed parliament's two appropriations committees on the division of revenue proposed in the medium-term budget policy statement tabled by finance minister Tito Mboweni in October.

The majority of municipalities are already dysfunctional, as highlighted every year by the auditor-general. They also have to struggle with unfunded mandates. A fiscal crisis will obviously make a bad situation worse.

The unfunded mandates means they are obliged to provide public services for which they do not receive funds from national government, something the SA Local Government Association (Salga) has repeatedly complained about over the years.

According to Salga, the unfunded mandates municipalities have to bear responsibility for include health, housing, library services and museums.

Sachs identified three ways of tackling the fiscal crisis faced by local government: raising taxes; shifting the unfunded mandate from local government to national and provincial government by giving local government a greater slice of the cake; and decreasing the package of public services that local government funds.

"If we do not take seriously the fiscal crisis in local government, and if we do not take seriously the need to make clear policy choices about the fiscal path in the period ahead and its implications for policy — if we fail to make those choices, the likelihood is that it is the third solution that we will find emerging most strongly in the years ahead," Sachs warned.

Compared to national and provincial government, local government sees a sharp initial increase in its share of non-interest government expenditure over the next three years, a trend that has continued for several years.

But despite this robust allocation of resources, it faces a fiscal crisis.

Sachs noted that in the auditor-general's report on local government for 2018, the top 10 contributors to unauthorised expenditure all related to overspending on the budget, which was not only a problem of financial mismanagement but also a fiscal problem.

Almost all of the top 10 contributors to fruitless and wasteful expenditure related to interest payments to Eskom. This is regarded as fruitless and wasteful because the accumulated debt is deemed to be unnecessary.

Over the three years between 2021/2022-2023/2024, national government resources will decline at an annual average of 3%, provincial resources will increase by 0.9% and local government resources will increase by 2.1%. The Treasury forecasts an average inflation rate of 4.3%.

Sachs noted that with the latest division of revenue, it is national government that suffers the biggest hit in terms of budget allocations over the next three years, with significant cuts being made to the budgets for defence and the criminal justice system, which includes the law courts, law enforcement agencies, the police and prisons.

The next biggest burden of fiscal adjustments will be felt by provincial governments. Provinces will see their budgets increase in nominal terms, but far below inflation.

The growth in the budget of the provincial sphere is concentrated on conditional grants. Sachs said the equitable share is growing by 1% or less, whereas provincial conditional grants will be growing in the region of 3.5%.

He added that this emphasis on conditional grants reflected a double burden being placed on public consumption, which is in the main education and health in the provincial sphere and the criminal justice system at national level.

"These budgets are all being forced down both to stabilise debt and to shift the composition of spending from public consumption to what is called capital," he said.

Over the next three years local government sees its budget increase most strongly. The local equitable share in particular continues to grow far higher than inflation, at about 8% or 9%, and then slows down in the third year.

The growth rate of local conditional grants is also below inflation but growing increasingly rapidly, Sachs said.

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