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# **Comments on the 2012/13 DoRB**

**Standing and Select Committees on Appropriations**

**28 February 2012**

**By**

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# SALGA MANDATE

## Vision

To be an association of municipalities that is at the cutting edge of quality and sustainable services.

## Mission

To be consultative, informed, mandated, credible and accountable to our membership, and provide value for money.

## Values

Responsive, Innovative, Dynamic and Excellence.

**SALGA  
Mandate**

**Lobby,  
Advocate &  
Represent**

**Employer  
Body**

**Capacity  
Building**

**Support &  
Advice**

**Strategic  
Profiling**

**Knowledge &  
Information  
Sharing**

Transform local government to enable it to fulfil its developmental mandate.

Lobby, advocate, protect and represent the interest of local government at relevant structures and platforms.

Act as an employer body representing all municipal members and, by agreement, associate members.

Build the capacity of the municipality as an institution as well as leadership and technical capacity of both Councillors and Officials.

Support and advise our members on a range of issues to assist effective execution of their mandate.

Build the profile and image of local government within South Africa as well as outside the country.

Serve as the custodian of local government intelligence and the knowledge hub and centre of local government intelligence for the sector.

**The Voice of Local Government**



# General Comments

- Welcome the overall sentiment of the Budget calling for fiscal restraint and effective and efficient spending
- Job creation and infrastructure development is at the centre of the budget focus and from a local government perspective:
  - We welcome support given to SMMEs
  - Focus on EPWP
- SALGA welcomes the total of R5.3 billion added to LG allocations over the 2012 MTEF
- SALGA notes that additional funding is made available for:
  - Governance and Administration costs in poor municipalities (Ward Committees)
  - Anticipated increases in the costs of basic services in outer years of 2012 MTEF
  - Upgrading of informal settlements



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# 2012 MTEF

## Division of Revenue (1)

### Division of nationally raised revenue, 2008/09-2014/15

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Local Government</b>							
Equitable Share	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General Fuel Levy Sharing	0	6 800	7 542	8 573	9 040	9 613	10 190
Conditional Grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
<b>Total</b>	<b>45 488</b>	<b>51 537</b>	<b>60 904</b>	<b>68 181</b>	<b>77 342</b>	<b>83 858</b>	<b>90 707</b>
% Share of Nationally raised revenue							
National	49.7%	50%	48.1%	47.1%	47.2%	47.4%	47.6%
Provincial	42.4%	43%	43.7%	44.5%	44.0%	43.7%	43.4%
Local Government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%

- increasing from a low base
- response to high electricity prices
- municipal revenue collection affected



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## Estimated national municipal capex requirement - 2011 – 2020 (estimated) (R '000)

	Const 2010 values	Nominal values	%
Johannesburg	80 414	109 960	14%
Cape Town	70 159	96 095	12%
eThekweni	62 677	85 325	11%
Ekurhuleni	47 726	65 174	8%
Nelson Mandela Bay	19 638	26 652	3%
Other 3 metros	97 853	133 463	17%
Total 8 metros	378 466	516 669	67%
Estimated non-metro	189 239	258 342	33%
Total local government	567 704	775 011	100%



**Provision for growth**

**Maintenance & refurbishment backlog**

**Minimum standards backlog**

**Ongoing costs of services**

**Economic**

**Residential**

**Cost of infrastructure & services required to adequately fulfil legal mandate**

**GAP**

**Expenditure efficiencies**

**Development charges**

**Tax & tariff increases**

**Improved revenue effort**

**Existing revenue capacity**



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# Past Budget Forum Inputs (1)

## LOCAL GOVERNMENT FISCAL FRAMEWORK REVIEW

- Investigate the relationship between district and local municipalities
- Build the capacity of weaker municipalities to spend efficiently and effectively
- Increase funding for Institutional costs of smaller municipalities
- Address Unfunded Mandates
- Improve funding arrangements for repairs and maintenance
- Undertake empirical studies into the cost of service delivery in LG to inform decisions about the vertical share of revenue
- Such studies should underpin the LG fiscal framework review





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# Past Budget Forum Inputs (2)

## LEGISLATIVE AND POLICY CONSTRAINTS IMPACTING LG REVENUE MANAGEMENT

- Ad-hoc national policies and legislative amendments are constraining own revenue sustainability, e.g.:
  - AARTO is not functional and costs money
  - rates ratios for categories of properties in terms of the MPRA
  - NERSA tariff processes are not fully aligned to MFMA budget process
  - Enforcing Credit Control in Eskom supplied areas
- National and Provincial governments must commit to pay outstanding property rates to municipalities
- Report net debtors and not gross debtors
- Provide support and guidance for debtors management and writing off irrecoverable debt



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# General Comments on LG Grants (1)

- Growth in grants have been exponential but has tapered of significantly over and past few years
- Growth of the next few years as a percentage of the national fiscus will also slow down significantly over the MTEF - Value of direct transfers grows at an average 10% - "slightly above inflation"
- Major cost drivers of municipalities - Water and Electricity, Salaries, construction
  - Construction industry have escalated by as much a 47% in the past five years
  - Bulk services are increasing by more then 25%
- This means in real terms - theres actually been a steady "real" decline in LGES and other Grants



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# General Comments on LG Grants

- The adjustments to LG grants are not fully understood
  - tables in Annexure W1 are complicated
    - not easy to follow steps from savings, revisions and additions to net effect
  - there is no explanation given why certain grant baselines are reduced
    - e.g. the Neighbourhood Development Partnership is reduced, but
    - why not improving the grant policy and processes rather



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# Specific Comments on LG Grants

- Local Government Equitable Share
- Conditional Grants
  - General comments
  - Infrastructure Grants
  - Capacity Building and Other Grants



# Equitable Share (1)

- The additional R2.2 billion added over the 2012 MTEF is noted
  - However, this is about a 10% increase to the total LGES allocation
  - This increase is therefore a pass on cost in relation to Salaries and Bulk Services (meaning not net increase for LG Budgets)
- There is a need for more transparency on how the LGES is calculated
  - e.g. it is not clear what the break down is of the basic services cost parameters (as in Annexure W1)
  - i.e. the break down between bulk costs, repairs and maintenance and overhead costs that free basic services subsidies are intended to cover?
- Absence of this information makes it difficult to understand to what extent the stated increases in the LGES baseline covers each of those cost drivers
  - e.g. how does the R2.2 billion increase in the LGES baseline covers the combination of increases in bulk costs, repairs and maintenance and overhead costs across water, sanitation, refuse removal, electricity, and municipal health services?

## Equitable Share (2)

- Rising cost of bulk services and demand for basic services requires higher than inflation increases to the LGES
  - The table below indicates slow growth in the Electricity portion of the total Basic Services Component

Budget Year	Electricity portion of LGES Basic Services Component R million	Annual Growth	Eskom Bulk Tariff Increase
2011/12	9 512		<b>26.7%</b>
2012/13	10 538	10.8%	<b>27.1%</b>
2013/14	11 294	7.2%	<b>25%</b>
2014/15	12 144	7.5%	<b>25%</b>

- basic services provision is gradually becoming unaffordable to municipalities
- municipalities have to provide for repairs and maintenance of infrastructure through which free basic services are delivered

**Municipal indigent support is under threat!**

- It is not clear how the actual average monthly electricity subsidy of R208 per poor household given in Annexure W1 cover these increases, since:
  - the true break down of cost parameters are unknown, no indication of the range of subsidy levels to indicate different municipal contexts, and Census 2001 numbers are used to average



# Equitable Share (3)

- SALGA notes the funding provided for Ward Committees over the MTEF
  - This will assist improvement in local governance
  - However, are structural budget challenges of rural municipalities properly covered by the Institutional Component?
- SALGA notes the review of the formula that is underway and will continue to participate in the review process that should result in:
  - a more equitable distribution of funds between different municipalities based on their varying fiscal capacities (principle of differentiation)
  - a new poverty line
  - more municipal services covered (e.g. fire-fighting and storm water drainage systems, etc)
  - proper funding for rural municipalities
  - a functioning development component (SALGA has called for this in past BFs)



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# Equitable Share (4)

## IMPACT OF GRANT INCREASE ON A TYPICAL MUNICIPALITY

- SALGA





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# Specific Comments on LG Grants

- Local Government Equitable Share
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  - General comments
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  - Capacity Building and Other Grants



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# General comments on Conditional Grants

- SALGA notes the additional R3.1 billion for direct transfers and R2.4 billion for in-direct transfers to municipalities for:
  - upgrading of informal settlements in cities and large towns
  - bulk infrastructure and solid waste management in rural municipalities
  - electricity demand side management
- General Concerns
  - limited understanding of how non-formula driven municipal allocations are determined, except through allocation criteria in grant frameworks
  - reporting systems on grants needs further improvement and streamlining
  - there is no comprehensive report on the non-financial performance of conditional grants to local government. The unavailability of such information affects policy decisions
  - reports on spending of conditional grants also do not describe the reasons for under-spending and therefore further complicates policy decisions
  - national and provincial government must assist municipalities in securing technical capacity to successfully plan and execute projects funded through grants



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# Infrastructure Grants (1)

## Municipal Infrastructure Grant

- 15% Ring-fencing for Sport and Recreation
  - some municipalities do not have significant backlogs and the 15% would not suit their spatial plans
    - such municipalities receive a very small amount of MIG and would not be able to build a multi-purpose complex.
  - SALGA recommends that in the long term a conditional grant with a maintenance and backlogs consideration should be considered for all infrastructure grants.
  - A comprehensive review to include social services is needed.



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# Infrastructure Grants (2)

## Rural Households Infrastructure Grant

- The grant should be incorporated sooner than 2014/15 as it should have been part of MIG already
- It is funding projects that municipalities should be undertaking themselves rather than through the Department of Human Settlements
- It is not a special project that could be centrally administered (compared to the eradication of bucket system)
- However:
  - Shifting of the grant does not solve the underlying problem of under-performance
  - There needs to be an understanding of why the grant could not perform as envisaged
  - Otherwise, we're not dealing with the real problem, but only the shifting of the flow of funds from one department to another



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# Infrastructure Grants (3)

## Integrated National Electrification Programme Grant

- Government should consider allowing municipalities to use this grant to electrify households, especially in rural areas, by means of renewable energy
  - e.g. supply of lights in homes by means of solar energy through the use of photo voltaic panels
  - in the long run, the households, whether they are connected to the grid or not, will spend less on electricity as some of this electricity will be supplied through solar energy



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# Infrastructure Grants (4)

## Regional Bulk Infrastructure Grant

- The grant implementation should be clarified given that there is no common understanding and definition of what constitute potable bulk water infrastructure in the water sector
- There is no clarity between DWA, Water Boards and Municipalities, on who funds what type of bulk water projects
- SALGA recommends that discussions be held on this to determine a proper flow of funding for bulk water infrastructure solutions



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# Capacity Building and Other Grants (1)

## Electricity Demand Side Management Grant

- The extension of this grant over the MTEF is welcomed
- Process for approval of 2013/14 Business Plan
  - the format and requirements for proposals must be clearly communicated to municipalities well in advance of the closing date of 3 September 2012 for proposals
  - it will be beneficial to municipalities if they are allowed to implement projects in the residential and commercial sectors and not only in municipal operations. Examples of the types of interventions which can be implemented in the residential sectors are ripple control and solar water heaters
- Municipalities should also be allowed to implement renewable energy interventions such as photo voltaics as part of this grant



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# Capacity Building and Other Grants (2)

## Municipal Disaster Grant

- SALGA welcomes this funding, but government needs to increase municipalities' awareness of this
- Municipalities are reluctant to declare a disaster because they often do not have funding to provide initial responses to disasters
  - too often municipalities are not reimbursed for disaster responses or not to the value of their initial spending
- Increased funding should be allocated for both risk reduction infrastructure and disaster response





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# Capacity Building and Other Grants (3)

## Water Services Operating Subsidy Grant

- Extension of this grant is noted
- Past performance on this grant should however, indicate how communities have benefitted from the refurbishment of the schemes
  - i.e. has the delivery of water and sanitation improved, is water supply reliable and complies to set norms and standards?
- The focus going forward should be on ensuring that transfer agreements are signed and that the funds are transferred to municipalities to execute work in the delivery of sanitation



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# Capacity Building and Other Grants (4)

## Integrated EPWP Grant for Municipalities

- SALGA supports the specific grant focus areas as they are aligned to the LG Mandate
- EPWP should be seen as a subset of IDP and MIG projects
- We welcome the 15% allowed for project management and admin/capturing
- The reporting system as previously indicated is complicated and needs to be simplified
  - Once again there is a one size fits all
  - This is according to SALGA the reason for under-reporting on EPWP by smaller municipalities
- The DORA should include targets of municipalities reporting for the next 3 years
- SALGA would recommend using the CRDP nodes to focus on the job creation efforts



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# Capacity Building and Other Grants (5)

## Integrated EPWP Grant for Municipalities (continues)

- The grant has changed from the Schedule 8 to a Schedule 6
- This means that the EPWP allocation in the current year is based on the last year's numbers of jobs created
- If however, a municipality create more jobs in the current year they may be disadvantaged because they may not have the cash flow support as is currently the case.
- Currently they draw down as they create jobs.
- This may streamline management of the grant for NT and DPW but may also have an unintended consequence of a municipality targeting same number of jobs as created last year – due to the grant



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# Conclusion

- Provision for infrastructure investments of R109 bn over MTEF, but not equal support for repairs and maintenance
- Fiscal framework does not fully provide for LG functions (including agency functions)
  - unfunded mandates in health, libraries, museums, roads
  - housing and transport to be allocated to municipalities
- LG revenue will still be under pressure
- Indirect grants to LG requires consultation with municipalities on how spending will unfold or with SALGA



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# Conclusion

- SALGA acknowledges the tight fiscal stance amid the national and global economic challenges
- Point of SALGA interaction in Budget Process is too late resulting in limited time for inputs
- Need to improve municipalities' awareness of grants
- SALGA will impress upon its members to redirect spending towards frontline services, and to reduce non-core and ineffective expenditure