SALGA

South African Local Government Association

The 2012 Division of Revenue Bill

SALGA Input to NCOP Debate

26 April 2012

Hon Chairperson of the NCOP

Hon Deputy Minister of Finance

Hon Members and Special Delegates

Chairperson, the division of revenue should in terms of our Constitution seek to strengthen the ability of provinces and municipalities to provide basic services and perform the functions allocated to them. It should thereby seek to progressively improve the living conditions and living standards for all constituents by means of providing for developmental and other needs.

The 2012 Division of Revenue Bill and local government allocations presents further opportunity to accelerate the attainment of universal access to municipal services.

Chairperson, the Minister of Finance reported on the slowdown in the economy to growth of about 2.7% in the last fiscal year and expressed the anticipation of a recovery to about 3% in the 2012/13 fiscal year.

SALGA is appreciative of the difficult economic situation that the country finds itself in and the impact it has on the revenue streams of government.

In fact, local government revenues are also directly affected by the downturn in the economic cycle.

We therefore welcome the overall sentiment of the 2012 Budget which seeks to protect allocations to Local Government, but also calling for fiscal restraint and effective and efficient spending in the three spheres of government.

The Division of Revenue Bill

It is noted that the EPWP Incentive Grant to Municipalities has been reviewed and SALGA supports this, as the grant focus areas are aligned to the mandate of local government. We do however, call on national government to simplify the reporting system for this and other conditional grants to local government. Local Government has to continuously bear the cost of compliance with national policies which erodes already limited revenue sources for basic service delivery.

Chairperson, we note the funding through in-kind transfers for municipal projects where local capacity is lacking. While this funding is indeed welcomed, there is a need for improved cooperation with receiving municipalities on the size of allocations and how it will be spent by national departments and implementing agents. It is envisaged that the consultation processes should involve SALGA.

Chairperson, this Budget sets out a tight fiscal framework within which national revenue is divided between national, provincial and local government. It is noted that in the vertical division of revenue process, Local Government is allocated R77 billion or 8.8 per cent of nationally raised revenue in 2012/13.

Chairperson, we are aware of the huge challenges that some municipalities face in spending their annual allocations, especially infrastructure grants. We are however, confident that in working together with national government on interventions such as the Municipal Infrastructure Support Agent of the Department of Cooperative Governance, positive impacts can be made.

Local Government Equitable Share Allocations

Local government receives R37.9 billion in 2012/13, R40.6 billion in 2013/14, and R43.6 billion in 2014/15 of equitable share which is an upwards revision to the baselines by R2.2 billion over the next three years. It is noted that the equitable share makes provision to sustain basic service delivery and further revisions towards strengthening governance and administration in smaller municipalities.

Government also provided R9 billion in 2012/13, R9.6 billion in 2013/14 and R10.2 billion in 2014/15 as the metros' share of the General Fuel Levy that has now been fully phased in. SALGA has been processing a National Conference resolution to apply for a local business tax for economic infrastructure and services and a process of engagement with key stakeholders has already commenced. Further consultation will be held with National Treasury ahead of our application.

Chairperson, SALGA is of the view that local government allocations in this Budget does not fully consider some fundamental issues affecting Local Government at the moment.

Firstly, the steep increases in the prices of bulk services such as electricity and water impacts on the sustainability of basic service provision by Local Government. If this trend continues, more and more residents will fall outside of the affordability net, further compromising revenue management in Local Government. National allocations to Local Government should take this into consideration and increases should be in excess of annual inflation.

Secondly – many municipalities continue to carry the burden of un/underfunded mandates, for services rendered on behalf of Provincial Governments. In addition the fiscal impact on Local Government of National Legislation as well as demarcation processes is not always fully comprehended. AARTO and the incorporation of the former district municipality of Metsweding into the City of Tshwane are cases in point.

Finally, in this regard we are involved in a task team with National Treasury on reviewing the local government equitable share based on the new census data. We have requested for some time now that such a review will require proper costing of basic services and sustainable funding for smaller and rural municipalities that have limited rates and services income. We are therefore of the opinion that parliament will need to consider a baseline revision of the vertical division of revenue, which is currently at about 8%.

Local Government Conditional Grants

Chairperson, SALGA notes the conditional grant allocations to local government amounting to R30.4 billion in 2012/13, R33.7 billion in 2013/14, and R36.9 billion in 2014/15.

It is duly noted that additional funding of R5.4 billion has been allocated to fast track the upgrading of informal settlements in large cities, provision of bulk infrastructure, solid waste management in rural municipalities and electricity demand side management.

A number of changes were made to Local Government Conditional Grants, such as the creation of the Infrastructure Skills Development Grant, which we support. There are however, a number of changes made to the baseline allocations of existing conditional grants that are not adequately explained in the Budget documentation.

SALGA is of the view that instead of cutting certain grants due to under-spending, like the Neighbourhood Development and Partnership Grant for township renewal, national government should rather amend its implementation policies and raise the awareness to the existence of the different grants available to municipalities. Another example is the policy decision to incorporate the Rural Households Infrastructure Grant into Municipal Infra-structure Grant which is going to change the flow of funding from one department to another, but might not necessarily solve the underlying problem of under-spending of the grant.

Policy decisions are complicated due to the unavailability of comprehensive reporting by national government on the non-financial performance of the conditional grants.

Chairperson, these issues were also raised during the recent NCOP debate on the fiscal framework.

Review of the Local Government Fiscal Framework

Chairperson, we are aware of the processes underway by National Treasury and the Department of Cooperative Governance, and independently by the Financial and Fiscal Commission to review the Local Government Fiscal Framework.

SALGA supports these initiatives, although we advocated in the 2011 Budget Forum for an independent commission to conduct such review. We do however; want to see a revised fiscal regime for local government that is at the very least:

1. Based on empirical studies into the actual cost of service delivery in Local Government to take informed decisions about the vertical division of revenue; and
2. Considers the differentiated needs of urban and rural areas alike.

Chairperson while it is important that we engage government on improving the intergovernmental fiscal system, we do acknowledge that municipalities need to continue to improve revenue collection and billing, expanding the rates base as well as explore new sources of revenue in order to address service delivery challenges and promote economic growth. Whatever we do on this matter, it must be noted that there would remain a fiscal gap in Local Government.

Local Government stands poised to be the central delivery point of a developmental state, it must therefore be a collaborative effort by all three spheres to ensure that municipalities are strengthened and capacitated to discharge their constitutional and political obligations.

It is through this collective effort that we will be able to remove the constraints to improved service delivery to our people, and rise to the principled mission of our generation, that of reducing unemployment and poverty and addressing the deficits in our Human and Infrastructure Development.

Honourable Members, Chairperson, on behalf of the National Executive Committee (NEC) of SALGA allow me to place on record that although we support the 2012 Division of Revenue Bill, we will continue to engage national and provincial government on the challenges that impact on the ability of local government to render services on a sustainable basis.

I Thank You

Cllr C Neethling

SALGA NEC Member