SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT
4 MARCH 2021

PROBLEM STATEMENT

The Local Government Funding Model is fundamentally flawed. The White Paper on LG is exposed on the following aspects:

- The aggregate size of municipal budget in SA is substantial contributing 7.5% of GDP and 21% of Public Sector Budget (Diminishing Revenue from utilities)

- Section 227 of the constitution entitles municipalities to an equitable share of the nationally raised revenue (Unfunded and underfunded mandates)

- Sections 229 and 230 of the Constitution grant municipalities considerable taxation and borrowing powers, but subject these powers to national legislation and regulation (Cost of compliance and compromise on governance)

- Financial sustainability requires that municipalities ensure that their budgets are balanced for financial sustainability (High cost of Bulk Purchases)

KEY ASSUMPTIONS OF THE LG WHITE PAPER

SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
SALGA
Inspiring service delivery

- Local government is allocated 9.4% of nationally raised revenue, because of the White Paper assumptions around own revenue raising, which assumed that rates and services would contribute 73% of total op ex requirements

Income source	Assumed contribution to own revenue (%)	Assumed contribution to operating expenditure (%)
Property rates and taxes	19.9	17.91
Electricity sales	41.4	37.26
Water	11.8	10.62
Sewerage &refuse removal	8.2	7.38

- It is critical to remember that this was to be achieved in an environment where service charges were “affordable”: the delivery of the social wage component of the RDP depended critically on both subsidised and affordable services for poor households, small farmers and small enterprises. In addition, the White Paper was clear that if services were not affordable, local government would affect ‘ability to pay’

THE REALITY

– How does current reality shape up against these assumptions? This is not an easy question to answer, because we cannot just compare current revenue to current expenditure. Current expenditure is critically limited by available revenue. What we need is a “proxy” for what operating expenditure should be. Made use of budgeted opex, but this is probably still an understatement (maintenance)

	Property Rates (%)		Electricity (%)		Water (%)		All Services + Rates Actual (%)
	Budget	Actual	Budget	Actual	Budget	Actual	
2018/19	17.28	16.58	29.99	26.48	10.59	9.60	59.7
2017/18	16.83	13.69	30.73	22.48	10.50	7.50	49.8
2016/17	15.86	15.61	32.25	30.50	10.35	9.51	62.2

– Only the metros are close

– The biggest shortfall is the relative contribution of electricity

THE REALITY

– The situation is actually much worse than these figures suggest:
  - Probably no more than 65% of actual revenue will be collected
  - There is significant under-budgeting and underspend on infrastructure maintenance (to potentially disastrous long-term effect)
  - Covid-19 has exacerbated (albeit not created) the situation, possibly beyond tolerance

WE HAVE ALL FORGOTTEN ABOUT THE SOCIAL WAGE

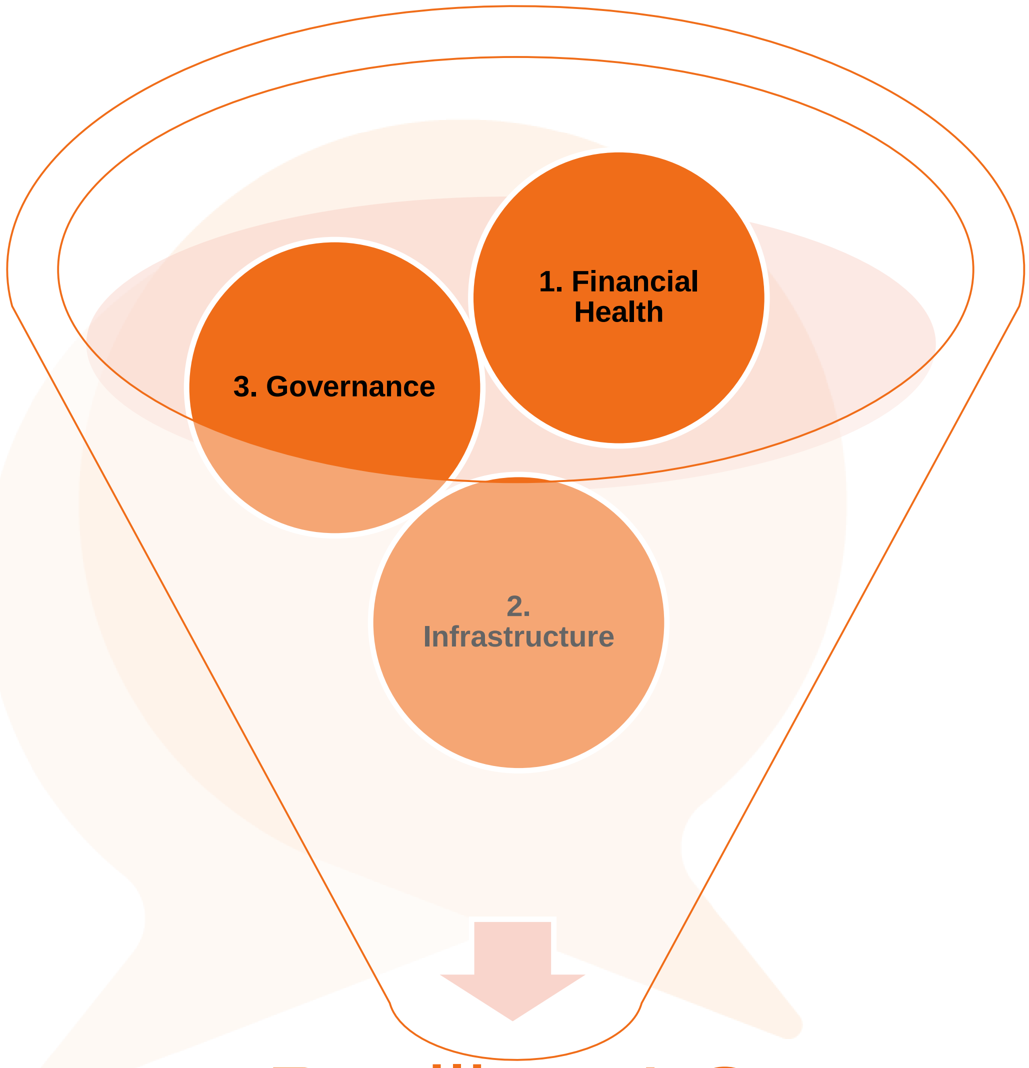
SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
SALGA
Inspiring service delivery

- The ‘social wage’ is all the subsidies that are granted to poor households to compensate them for their lack of income. It is a critical tool of the long-term goal of reducing poverty and inequality
- Municipal services are a key part of the social wage
- The White Paper was clear that municipal revenue goals would be reached WITHIN the limits of “affordable” services
- It intended for both subsidised and affordable services for poor households, small farmers and small enterprises. (In addition, the White Paper was clear that if services were not affordable, local government would affect ‘ability to pay’)
- We have completely forgotten about this part of the fiscal framework, with an almost exclusive focus on revenue collection at all costs.
- It requires that we address LG revenue while SIMULTANEOUSLY making services affordable for all households, small farmers and small enterprises

WHAT COULD BE DONE

- Better governance is necessary, but not sufficient
- The “people must pay” approach does not reflect reality (although there are some options). We currently have a situation where municipal tariffs are exacerbating poverty and inequality, instead of mitigating it. Treasury has suggested that current tariffs do not present cost recovery, indicating an even bigger “affordability” gap
- There is insufficient national funding to make up the shortfall
- We need to go back to the LG drawing board: what is the realistic available revenue, incorporating an effective social wage? Within those limitations, what is the optimum structure of local government to deliver the constitutional mandate?

Interlink



Resilient LG

Lever 1:
Unlocking Revenue Generation opportunities in tough economic environment

Lever 1: Unlocking revenue generation opportunities in tough economic environment

SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
SALGA
Inspiring service delivery

The following are the recommendations for consideration by members:

I. Innovative Revenue Streams to be researched and tested (Business Tax, Fiber optics infrastructure, CBD congestion tax, etc.);

II. Establish a position on historical debt and develop guidelines around responsible writing off of irrecoverable debt;

III. Formation of a multi-jurisdictional municipal revenue management agency as per (S.87 of MSA) to assist in the pooling of costs associated with revenue management. Essential for rural municipalities and ideally to be based at district level;

IV. Development of a framework of "basic minimum requirements or practices in revenue management" for different types of municipalities; and

V. Further research to be conducted on the adequacy of current levels of free basic services and the costs thereof (reference to current SALGA / FFC study on cost of basic services).

Lever 2:

Innovative Financing and Pooled resources

Lever 2: Innovative financing and pooled resources

SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
SALGA
Inspiring service delivery

Opportunities and threats: The table below shows related instances:

Environment	Opportunities	Threats
Capital market	Extension of funds	Inadequate responses of lenders due to information asymmetries
Central banks	Unblocking of investment by monetary impulses	Bias and destabilization by bad policy in the long run
Rating agencies	Incentives and advice for higher credit-worthiness	Unsuitable rating standards; biased rating; initiation and acceleration of downward-spiral
Political market	Support of public borrowing	Obstruction of debt service according to election cycles

Lever 3:

Strengthening Financial Management through strong Governance

Strengthen financial management

- Develop proper systems
- Diagnose audit outcomes in respect of service delivery
- Conduct a study on pooled resources review optimum structure of municipalities
- Regulations needs to enable attraction of skilled personnel
- Political buy-in to strengthen financial management – Council not to deviate from own policies.

THANK YOU