



**Western Cape
Government**

Provincial Treasury

Local Government Functional Fiscal Framework Review

4 June 2012

Presentation Content

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Finance Constraints – Basic Services

- Aging infrastructure and inability to extend existing infrastructure to roll services out to new HHs (*sensitivity of the FFF to backlogs*).
- Electricity provision to HH by ESKOM - compromises the debt collection leveraging municipalities have, especially where a large portion of towns are serviced by ESKOM. (e.g. Theewaterskloof, Swartland)
- Nationally ESKOM provides services to 40% of HH – interaction between ESKOM and municipalities concerning.
- Housing provision continues to add to the poverty constraint.
- Municipalities differs in various ways (coastal towns, in-land towns, high-revenue base, low-revenue base, geographic size), yet the legislative demands are the same.
- Rates rebates are increasingly contributing to revenue foregone.

Finance Constraints – Basic Services

- High tariff increases and affordability of municipal services.
- Impact of affordability on fiscal effort.
- Impact of demarcation on demand for basic services – mismatch between number of households and ES allocation because populations statistics not updated since 2001. *Funding should follow people.*
- Absence in poverty line results in huge variances in indigent HHs. (cut-off line can vary between R800 and R4000.
- What about the non-indigent/poor category that can also not afford services?
- Alternative means needed for determining levels of poverty at municipal level more regularly.
- Municipal Sustainability and data to inform it.

Financial Constraints - Other

Burden of Compliance

- Reporting
- Auditing
- Transformation i.t.o. the MFMA, MSA and other legislation and policies, e.g. Municipal Budget Reporting Regulations and Schedules, minimum standards, minimum competencies, GRAP, non-financial reporting (PdO).
- Property Rates – unbundling, re-valuation of assets.
- Ad hoc data requests from various institutions.

Political Stability

- Long standing acting arrangements , particularly in top management structures (section 57 and 56's)
- Ability and competence of Council to deliver on their mandate (oversight)
- Trust
- Impact of political instability and political interference on the stability of the administration, e.g. Stellenbosch, Saldanha Bay, George. (political oversight and intervention)
- Financial Viability – own revenue dwindling (Kannaland, Prince Albert, districts)

Financial Constraints - Other

Functional role of districts

- Value add from district municipalities to the broader regional space to bring about allocative efficiency.
- Areas identified where districts can play a more constructive role:
 - Disaster Management
 - Spatial Development Planning
 - Air Quality Management
 - Waste Management
 - Economic Growth Activities
 - Integration of SLA/assignment of responsibilities from other spheres of government.
 - Roads
- Important to create incentives for greater cooperation within districts and for districts to play a more strategic role in creating synergy in key regional planning areas.
- DCOG to look at the future role of districts to bring about value for money if districts are to stay.

Financial Constraints - Other

- Financial Viability – own revenue dwindling (Kannaland, Prince Albert, districts)
- Unfunded mandates

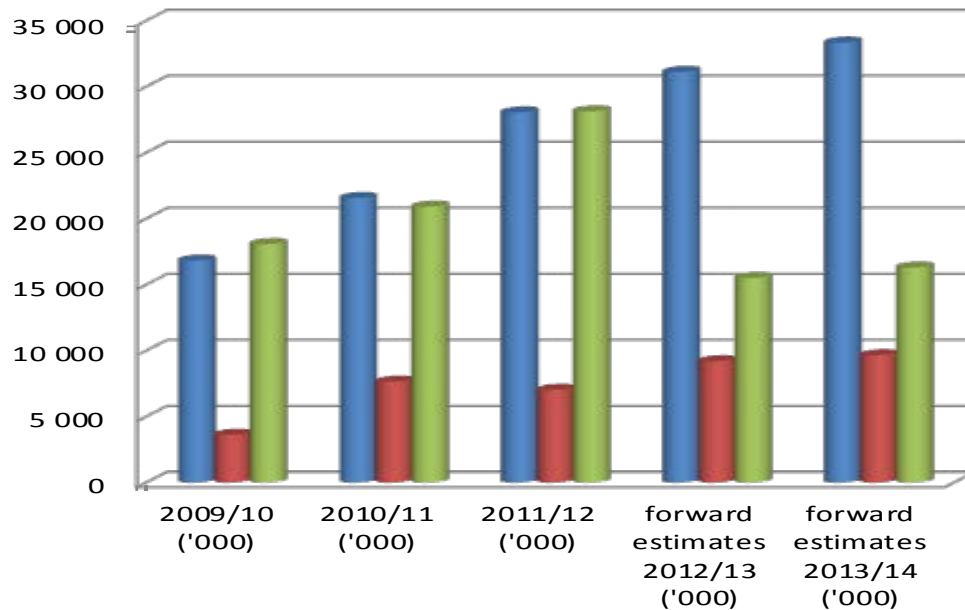
Data Constraints

- Reliance on Stats SA Census which is conducted every 10 years with potential 2 year before release, e.g. demarcation and adjustment in ES.
- Reliability of the Community Survey data at municipal level makes is a constraint in use to fill the data gaps. Next Community Survey should address this.
- Data constraints hampers the responsiveness of the ES allocation and the LG FFF to local change.
- Start looking at alternative forms of data to fill the data gaps.
- Better and more scientific understanding of relative poverty.
- Fragmentation of data – input data vs. performance data.

Application of the Equitable Share

- Municipalities indicated that about 50% of equitable share allocation used for basic services.

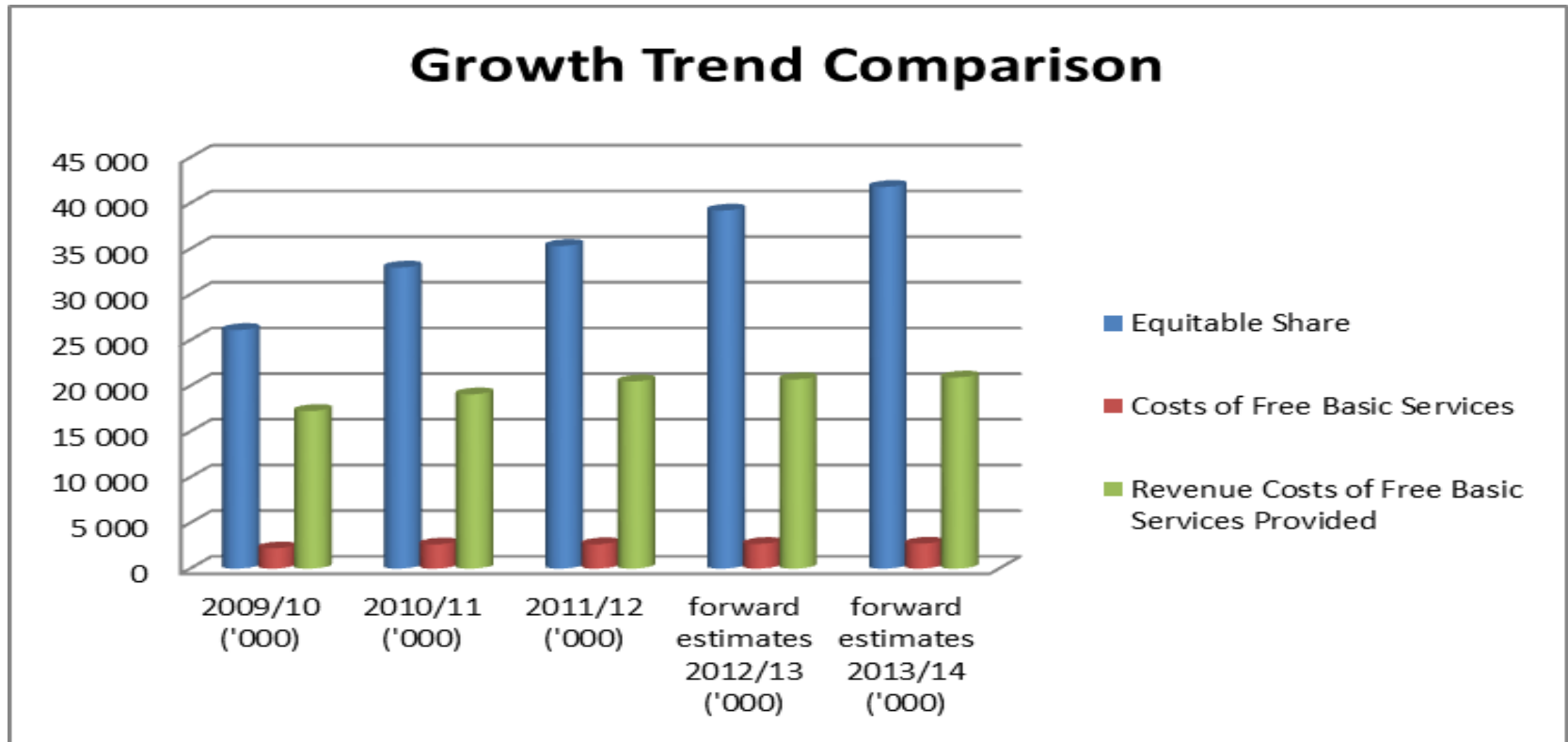
Growth Trend Comparison



■ Equitable Share ■ Costs of Free Basic Services ■ Revenue Costs of Free Basic Services Provided

Application of the Equitable Share

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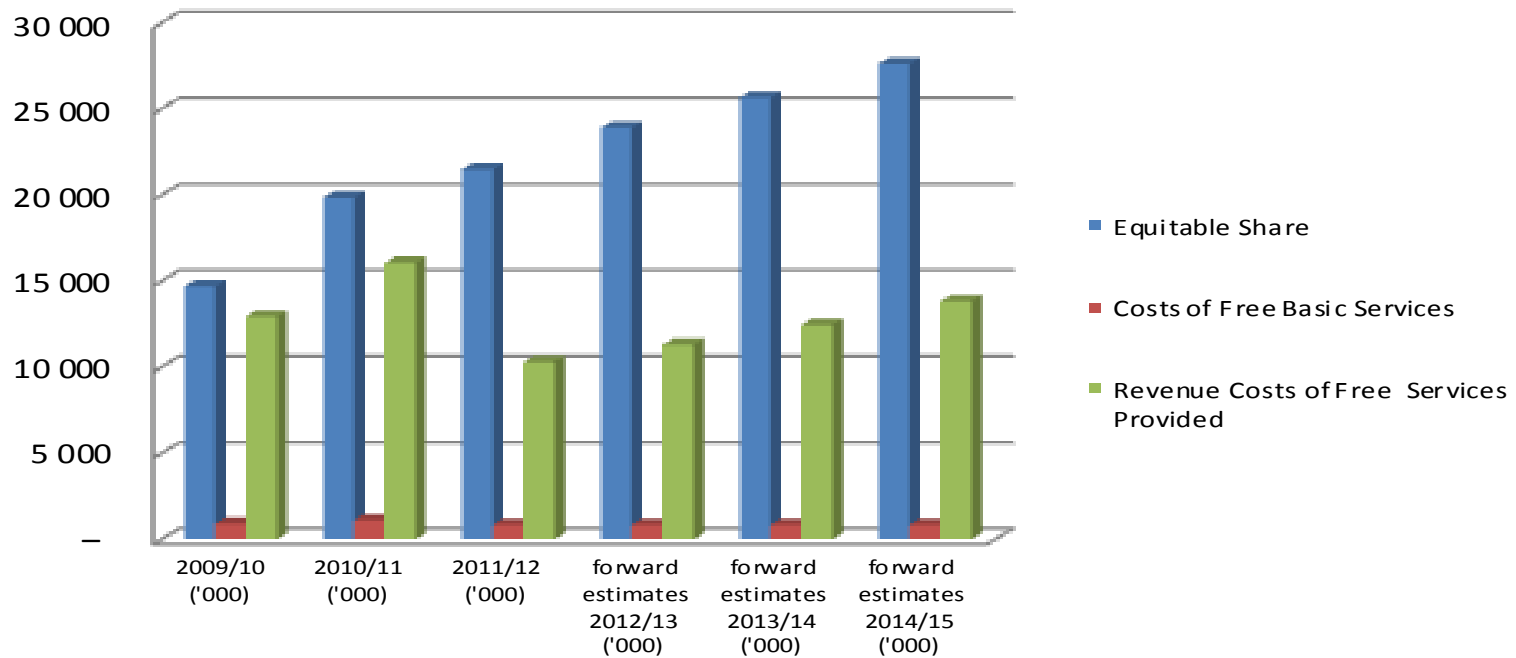


Application of the Equitable Share

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Equitable Share i.r.t. Free Services



Recommendation

- Fill data gaps – a lot hinges on getting the data right.
- Look at standardising property valuations and use the information drawn from this process as official data.
- Relook the institutional burden placed on municipalities by compliance
- Define poverty and ensure that the data is availability to respond to changes in the poverty.
- Intergovernmental fiscal transfers should look at the application when reviewing the formula so that past trends can inform the future formula.
- Transfer system should take into account actual own revenue, burdening factors emanating from national and provincial policies which places additional claims on municipal revenue, e.g. NERSA, DWA, Disaster Management, Compliance, Unfunded Mandates, etc.

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Thank you