



Financial and Fiscal Commission Local Government Fiscal Framework Public Hearings

Recap of First Public Hearings

Presentation Outline

1. Why Public Hearings?
2. Stakeholders in Attendance
3. Key Questions/Issues for Public Hearing 1
4. Outcomes of 1st public hearing
5. What was agreed

Why Public Hearings?

- “ To enhance Commission’s impact on policy debates
 - . Generate recommendations through comprehensive and extensive public hearing processes
 - . Develop recommendations through a process of partnerships and interactions
 - . Will run independent but compliment annual DOR processes
- “ Advantages of public hearings
 - . Improves interaction with stakeholders
 - “ Allows Commission to understand needs of key stakeholders
 - . Allows for a forum for all ideas and viewpoints to be debated
 - . Obtain a consensus from all stakeholders on research and policy issues

Public Hearings 1: Stakeholders in Attendance

” National departments

- . National Treasury
- . DCoG

” Provincial governments

- . Treasuries and local government departments

” Local Government

- . SALGA
- . Metros
- . Smaller/rural municipalities

Stakeholders in Attendance

“ Political authorities

- . Members of parliament
- . Members of provincial legislatures
- . Councillors

“ Other

- . Academics
- . World Bank
- . Public Service Commission

Key Questions/Issues in 1st Public Hearings

- “ Is current LGFF catering for needs of all municipalities in the country given their unique characteristics?
- “ What factors inherent in the current policy and fiscal environment hinder appropriate funding of municipalities?
- “ Is current legislative framework governing local government fiscal matters impacting negatively or positively on municipal performance?
- “ What issues in LG and IGFR systems weaken the performance of municipalities?

Key Questions/Issues for Public Hearing 1

- “ Does fiscal framework achieve appropriate balance between equity concerns and promotion of good governance?
- “ Are current revenue instruments afforded to municipalities sufficient, well designed and appropriately implemented?
- “ Is current LGFF robust and dynamic to cater for evolving sphere?
- “ What other aspects should be catered for in LGFF?
- “ What changes or improvements should be factored in LGFF?



3. Outcomes of 1st Public Hearings

Stakeholder Response on Issues

- “ Principles of differentiation agreed upon but basis is contested
- “ Views on LES
 - . Call for a review of vertical and horizontal division of revenue
 - . Conduct a transparent review of all LES components
 - . Update data for improved insight into demographic profile of municipalities

Stakeholder Response on Issues

“ Views on conditional grants

- . Highlighted challenges associated with a plethora of conditional grants
- . Capacity support to accompany conditional grant allocations where necessary
- . Recognise and reward performance

” Views on municipal own revenues

- . Fair evaluation of financial constraints in both urban and rural areas
- . Review true own revenue sources and their regulation
- . Have a social compact over service delivery

Stakeholder Response on Issues

“ Views on other issues

- . Local government challenges require a whole-of-government response
- . LGFF review should be informed by a review of the institutional framework
- . Municipalities are facing increasing cost pressures

Principles to Guide Options Analysis

- “ Better understanding of dynamic between fiscal capacity and fiscal effort needs to inform any revision of the fiscal framework
- “ LGFF should ensure that incentives created in the IGFR system are compatible with policy intent
- “ Fiscal criteria for re-demarcation should be clarified
- “ Design of a new LGFF must be predicated on a clear understanding of redistributive and growth-enhancing roles of local government

Principles to Guide Options Analysis

- “ Core dimension of LES as an unconditional equalisation grant
 - . Need to be dynamic
 - . Allocations need to be adequate and sensitive to powers and functions, expenditure needs, revenue adequacy and cost disabilities
 - . LES should align with developmental role of LG in addition to Constitution requirements
- “ Backlogs should be taken into account explicitly in determining the LGFF

Principles to Guide Options Analysis

- “ Inadequate policy coherence and lack of implementation support from national government have exacerbated dysfunction within the local sphere
- “ Conditional grants are supposed to trigger behaviour change in order to engender outcomes
- “ Instead of focusing on categorisation into urban and rural municipalities, focus should be on the linkages between urban and rural areas within functional economic regions
- “ All elements of the LGFF should be transparent to all stakeholders

Research Gaps Identified

- “ Costing of basic services
- “ Understanding fiscal capacity and fiscal effort
- “ Optimal allocations and design of fuel levy sharing mechanism
- “ Impact of demarcation process on municipal fiscal capacity and sustainability
- “ Understanding municipal allocative and technical efficiency

Research Gaps Identified

- “ Review of regulatory framework for municipal tariff setting
- “ Understanding cost of reporting compliance
- “ Optimising property rates revenues
- “ Process of effectively differentiating municipalities
- “ Municipal borrowing: principles and challenges

Research Gaps Identified

- “ Maintenance and rehabilitation of municipal infrastructure: funding models and incentives
- “ Defining, measuring and rewarding municipal performance
- “ Identifying data gaps at municipal level

Way Forward as Discussed then

- “ FFC to come up with an Options analysis report
- “ Options analysis report to inform second public hearing
- “ Align research gaps with FFC research agenda



Thank You