



NATIONAL COUNCIL OF PROVINCES:

DEBATE ON THE 2012 FISCAL FRAMEWORK

07 March 2012

Hon Chairperson of the NCOP

Hon Minister of Finance

Hon Members and Special Delegates

Chairperson, in delivering His Budget Speech Honourable Minister Gordhan made the accurate reflection that "Every one of the last hundred years has seen our nation overcome obstacles that seemed insurmountable. Some may have been beyond our control, the result of changes to the environment to which we were compelled to adjust. Some were the result of our failure to act, even when the solutions were known to us. Others were the unintended consequences of our own successes".

Indeed as we write the next chapters of unfolding South African story we will continue to be confronted by further challenges that, on the face of it, will seem insurmountable, beyond our control or force us to make tactical shifts in approaches as we seek to build on the successes of the past century, towards a South Africa envisioned in the Freedom Charter.

The 2012 Fiscal Framework presents further opportunity to accelerate our path towards a prosperous future.

SALGA is appreciative of difficult economic situation that the country finds itself in and the impact it has on the revenue streams of government. In fact, local government revenue is directly affected by the downturn in the economic cycle.

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

Chairperson, this Budget sets out a tight fiscal framework within which national revenue is to be 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. This vital source of revenue becomes part of the Local Government Fiscal Framework for 2012/13.

The Local Government Fiscal Framework for 2012/13

Chairperson, common cause that the Local Government Fiscal Framework as defined by provisions in the Constitution should ensure viable municipalities that are able to provide basic services and perform the functions allocated to them. It should therefore promote the improvement of living environments and livelihoods for all constituents by means of providing revenue sources and expenditure responsibilities to address developmental and other needs.

SALGA is of the view that the division of revenue for the 2012 MTEF 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, the Integrity of the Local Government Equitable Share calculation is over a period of time eroded since the allocations are based on census information that is only updated every ten years. In practice, this implies that at least for the past 4-5 years the equitable share would have not catered for growth in the urban centres as a result of a global trend of increased in-migration area.

Lastly – 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.

The unintended consequences of such come to bear on local government reflected in diminished revenues.

These matters will require further treatment and urgent resolution. For its part SALGA will continue to raise these issues in the correct fora, having thoroughly applied its mind to the appropriate mitigation and or response strategies.

Local Government Conditional Grants

Chairperson, SALGA notes a number of changes 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. This matter was quite vigorously debated during the recent public hearing on the 2012/13 Division of Revenue Bill at the Standing Committee on Appropriations.

SALGA is of the view that instead of cutting certain grants due to under-spending, like the Neighbourhood Development and Partnership Grant, 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 MIG 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.

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 inform 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 central delivery point of a developmental state, it must therefore be a National imperative to ensure the sector is strengthened and capacitated to discharge its constitutional and political obligations as we advance towards what the President of the Republic describes "a new story about South Africa – the story of how, working together, we drove back unemployment and reduced economic inequality and poverty."

Frantz Fanon asserts that "Every generation must, out of relative obscurity discover its mission, fulfil it or betray it"

It is through our collective effort that we will be able to remove the constraints to improved service delivery in Local Government, 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 please to place on record its appreciation for the opportunity to address this esteemed House as it applies its mind to the 2012/13 Fiscal Framework.

I Thank You

Cllr Subesh Pillay

SALGA: Chairperson of the Municipal Finance National Working Group