



# Comments on the 2023/24 Division of Revenue Bill

STANDING COMMITTEE ON APPROPRIATIONS

SALGA

*Date: 10 March 2023*



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# Presentation Outline

Purpose of the presentation

Constitutional & legislative background

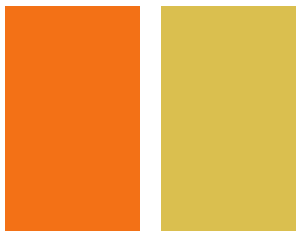
Macro Economic & Fiscal Policy Outlook and Impact of Load Shedding

Organised Local Government position on 2023/24 DoR Bill

Conclusion and Recommendations



## Purpose of the Presentation



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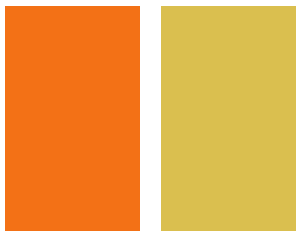
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The purpose of the presentation is to:

- Provide the Select Committee on Appropriations with SALGA views on the 2023/24 Division of Revenue Bill.



## Constitutional & legislative background



# Constitutional Background

The Constitution of the Republic of South Africa, 1996 as amended:

- Section 214(2) of the Constitution requires that prior to Parliament enacting the Division of Revenue Bill, Organised local government, amongst others, must be consulted.
- The Division of Revenue must, inter alia, take into account the following:
  - the national interest;
  - any provision that must be made in respect of the national debt and other national obligations;
  - The needs and interest of national government, determined by objective criteria;
  - the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them;
  - the fiscal capacity and efficiency of the provinces and municipalities;
  - developmental and other needs of provinces, local government and municipalities;
  - Economic disparities within and among provinces;
  - obligations of the provinces and municipalities in terms of national legislation;
  - the desirability of stable and predictable allocations of revenue shares; and
  - the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

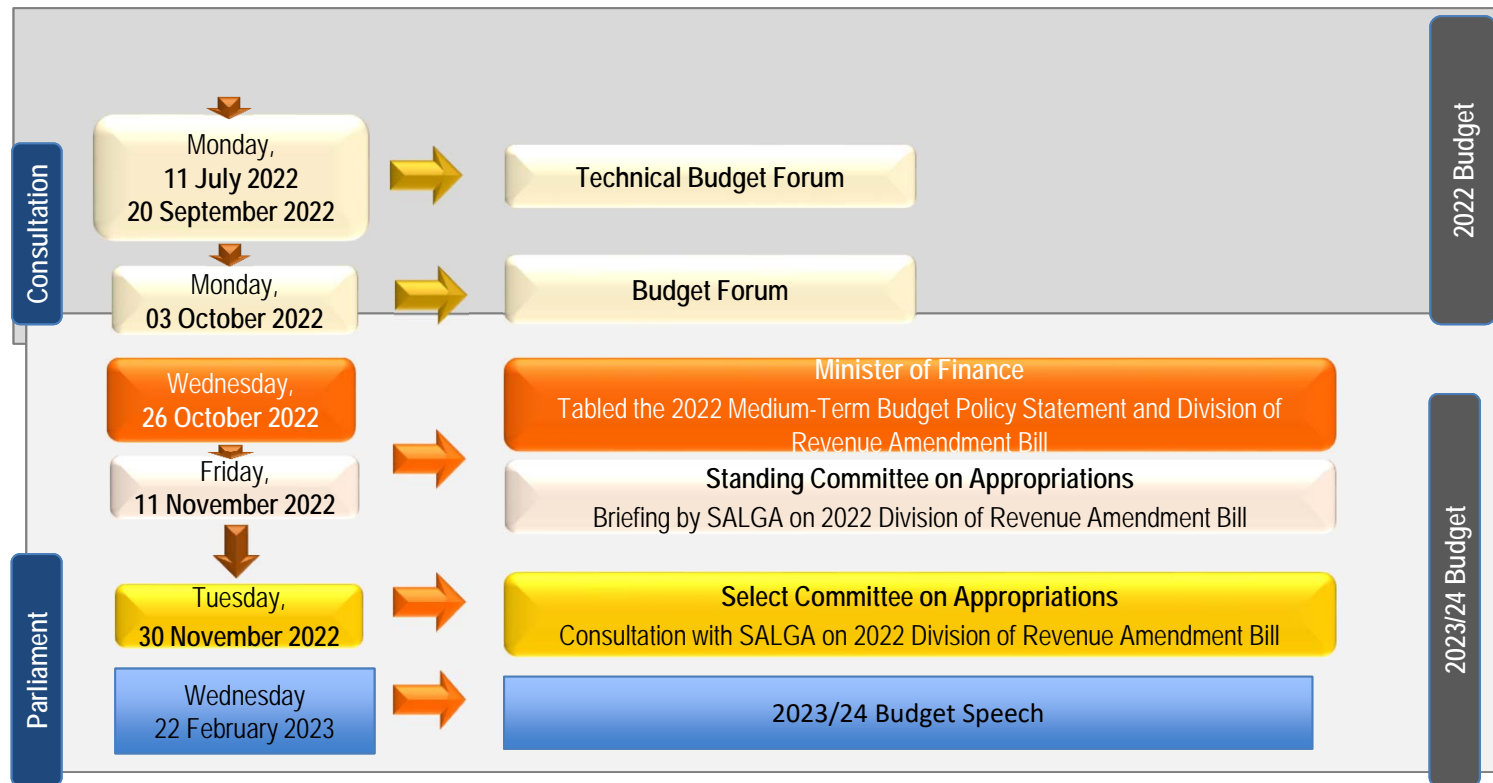


# Legislative Background

The Inter-Governmental Fiscal relations Act, 1997 (IGFR):

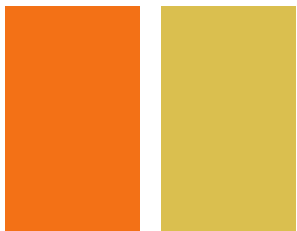
- The IGFR describes the Budget Forum in S.6 as a body comprised of the three spheres of government, with SALGA representing the local sphere of government.
- S6(a) to (d) outlines the Forum's role as the consultation space for the following aspects:
  - any fiscal, budgetary or financial matter affecting the local sphere of government;
  - any proposed legislation or policy which has a financial implication for local government;
  - any matter concerning the financial management, or the monitoring of the finances, of local government; or
  - any other matter which the Minister has referred to the Forum.
- S10(3)(b) compels the Minister to consult SALGA, either in the Budget Forum or in another way.

# Roadmap to the 2023 Budget and DoRB





# Macro Economic & Fiscal Policy Outlook and the Impact of Load Shedding



# Energy Crisis

- SALGA is greatly concerned about the current electricity generation capacity challenges leading to excessive loadshedding, which has lasted almost two years continuously.
- SALGA appreciates the challenges faced by the country due to loadshedding, as a result of failing generation infrastructure and lack of maintenance to Eskom's generation fleet.
- Loadshedding is further incentivising paying customers to seek alternative options for their energy needs, as is evidenced by the speed at which larger energy users are going off-grid. The result is declining revenue from electricity sales.
- Loadshedding overall has had a negative impact to the country and municipalities, not only in terms of revenue, but also in terms of additional expenditure, damage and vandalism to infrastructure, theft of electricity, over-time, and so on.



# Impact of Loadshedding on Municipal Services

During loadshedding municipalities are experiencing a range of negative impacts such as

- Increased theft of infrastructure such as cables
- Vandalism of infrastructure (such as transformers *etc.*)
- Damage to electricity distribution networks, especially substations, due to excessive switching
- Equipment failure where equipment is not designed for frequent switching
- Cable fault increases due to high loads after restoring the supply of electricity
  - *Approximately R150 000 to R250 000/day of load shedding*
- Medium voltage switchgear failure
  - *Approximately R50 000 to R 150 000/day of load shedding*
- Damage and lack of functioning of water supply and wastewater treatment works (e.g., water pumps, reservoirs, sewer pumps) resulting in inability to supply water services
- The huge financial implications of utilising back-up power for wastewater treatment works



# Impact of Loadshedding on Municipal Services

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## Negative impacts of loadshedding

- Loss of sales revenue
  - *Cities incur a loss of income due to unserved energy whereby the overall average direct loss ranges from between R3 million to R6 million per stage load shedding per day*
- Overtime budgets are abnormally high
  - *Switching operators and control officers who are performing network switching operations and restoring supply after equipment damage or theft & Vandalism incidents are costing between R60 000 to R80 000 per day of load shedding*
- Declining economic activities, business closures and job losses reduce affordability with increases in unpaid municipal accounts
- Increasing indigent numbers



## SALGA Views on the Macro Economic & Fiscal Policy Outlook

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- SALGA acknowledges Government fiscal consolidation strategy to reduce this fiscal deficit over the medium term.
- The 2023/4 Budget acknowledges that electricity supply is correctly deemed a growth priority reform yet not much mention is made of the critical network of infrastructure municipalities are responsible to uphold, particularly the damage that has been caused by persistent loadshedding electricity infrastructure and electricity reliant water infrastructure.
- The 2023/4 Budget outlines fiscal risks at national and provincial level yet these risks have the most detrimental effect on municipalities and their ability to deliver on their constitutional mandate to provide basic services.



# Recommendations on the Macro Economic & Fiscal Policy Outlook

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- SALGA supports the interventions contained in the Energy Action Plan, but these interventions need include a study to quantify the impact of loadshedding on municipalities, including:
  - Municipal revenue
  - Damage to electricity distribution networks, especially substations, due to excessive switching because of loadshedding
  - Funding for alternative energy supply for critical facilities like water treatment plants
  - Theft and vandalism of infrastructure linked to load shedding.
- SALGA suggests that the medium-term budget surplus be used to allocate more money to local government
- SALGA recommends that the government not hurt economic growth while trying to lower debt service costs through a stricter fiscal consolidation strategy. This is so that the benefits of this strategy, which must go to social spending, including local government, are matched by customers who can pay for municipal services.



# Organised Local Government comments on 2023 Budget and DoR Bill



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## Division of Nationally Raised Revenue – 2023 Budget

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- Though the allocation to local government increased by R14 billion, Organised Local Government asserts that the structural underfunding of the local sphere of government and the realisation of the aspirations contained in the White Paper on Local Government 1998 cannot be attained by a slight increase in the local government share of nationally raised revenue considering the financial pressures municipalities are faced with.



# Structural Under-Funding of Local Government

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- One of the resolutions at the 2022 Local Government Summit mandated to take a leading role in determining the ideal fiscal allocation to the local government sphere.
- The work undertaken so far in collaboration with FFC is the production of a base document that makes recommendations on the horizontal allocation of nationally raised revenue.
- The work that still has to be undertaken includes, among others,
  - the study on the cost of running the business of a municipality,
  - determining the ideal percentage of nationally raised revenue to be allocated to local government, and
  - a project plan finalised to consult all stakeholders in the IGFR.
- Preliminary findings will be presented at the Budget Forum in September or October 2023.



# Changes to the Local Equitable Share Allocations for 2023

- The current equitable share model underestimates the cost of providing services and overestimates the contribution of own revenues to funding these.
- The current underfunding of local government and its consequent financial distress are a direct result of the fiscal assumptions made in the White Paper on Local Government 1998, many of which have proven to be incorrect or have not been implemented as envisaged.
- Organised local government supports the refinement of the LGES formula in an effort to arrive at a cost-reflective basis for rendering basic municipal services. In fact, the 2015 study commissioned by SALGA in collaboration with the FFC, titled "Costing of Municipal Services to Inform DoRA Allocations," has long indicated that the current formula does not take into account the cost for fire-fighting services, cemeteries, and municipal health services. Despite this and the fact that the fiscal assumptions made in the White Paper on Local Government 1998 were overstated, the revenue adjustment factor applied to the community services component has not been revised to take into account these realities.
- SALGA participates in the Local Government Equitable Share Working Group, which is undertaking reforms to refine the local government equitable share formula.



## ESKOM Debt Takeover

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- SALGA welcomes the proposed debt relief measures for municipalities as it relates to the ESKOM debt take-over and awaits the envisaged Circular with conditions for municipalities by National Treasury, but it must be consulted for comments on the proposed Circular.
- SALGA welcomes the LGES cushioning with additional funding against shortfalls due to ESKOM tariff increases of 18.65% approved by NERSA. This tariff increase completely obliterates the ability of the municipalities to generate revenue from electricity services.



## SALGA's Asisho Campaign

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- SALGA in July 2022, launched a nation-wide citizen responsibility campaign, Asisho! Let's Say It!
- The campaign aims to educate members of local communities about their duties and obligations towards the social and economic upliftment of their local areas by paying for municipal services rendered.
- This Campaign will be extended to Government debt and private debt.



## The Potential Impact of the Budget 2023 Solar Rooftop Tax Incentive on Municipal Finances

- The proposed tax incentive on the installation of solar panels will encourage more migration from the grid to renewable energy and thus erode the most important revenue source for municipalities.
- This initiative will only benefit the middle class, who are high energy consumers and can afford to install renewable or alternative energy equipment.
- And these consumers form a significant portion of reliable ratepayers, who are major contributors to cities electricity revenue.
- The poor households will not be able to afford the installation of the solar panels and the accompanying equipment to make the solar panels function.
- They will remain on the grid using prepaid and conventional metering, which already has above-inflation tariff increases.
- The increase in uptake of renewable energy and changes in consumer demand for electricity affect not only city finances but also a city's ability to cross-subsidise low-income residential customers.

Source: SACN



# Review of Local Government Legislation

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- SALGA backs initiatives and efforts to review laws to improve governance in municipalities. This will lead to less bureaucracy and better ways to manage money and provide services.
- SALGA is participating in all intergovernmental forums aimed at improving the performance of municipalities.



# Norms and Standards for Electricity Surcharges

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- SALGA recommends that it be consulted on the norms and standards to regulate municipal surcharges on electricity.



## Update on Long-Term Borrowing for Municipalities and Developmental Charges

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- Organised local government supports the update of the municipal borrowing policy framework.
- SALGA also welcomes the approval of the Municipal Fiscal Powers and Functions Amendment Bill, as it will enable municipalities to charge development charges without regulatory obstacles.





## Pertinent Issues by SALGA not Mentioned in the 2023 Budget

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- SALGA is disappointed that the budget makes no mention of the government taking action or intervening to address debts owed to municipalities by government departments; we also note that these departments do not prioritise budgeting for their municipal debts.
- SALGA is concerned that the horizontal budget allocations to municipalities located on the borders of the country do not take into account the fiscal and service delivery strain that these municipalities are under due to uncontrolled and illegal immigration.

## **Pertinent Issues by SALGA not Mentioned in the 2023 Budget**

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Since the 2021 October Budget Forum, SALGA has noted with concern the national government's drive to convert municipal grants to Schedule 6 indirect grants.

- An attempt by COGTA to make MIG 6B in 2021
- DSAC attempt to increase the MIG indirect sports component from R 300 million to R 400 million in 2022
- DHS making the MEHG an indirect grant in 2023



# Technology and Innovation

- SALGA advocated for the inclusion of Technology and Innovation as part of local government water and sanitation infrastructure grant frameworks.
- The rationale for the above is informed by amongst others the following
  - Absence of direct funding in the current fiscal instrument(s) to municipalities for the deployment of innovative solutions
  - Inadequate funding by municipalities for the deployment of innovative solutions
- **To this end, SALGA welcomes the inclusion of Technology and Innovation as part of the following LG Water and Sanitation Infrastructure Grants Frameworks:**
  - Municipal Infrastructure Grant (MIG), Regional Bulk and Water Services Infrastructure Grants (RBIG and WSIG) respectively
- Going forward, SALGA will work collaboratively with COGTA and DWS to facilitate the implementation of the included provisions in the said frameworks.



## Conclusion and Recommendations



# Conclusions on the 2023 Budget and DoR Bill

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1. SALGA welcomes the 11%, or R14 billion, upward revision of the gross allocation to local government for the 2023/24 financial year. The upward adjustment in the outer years of the MTEF cycle of 6.3% billion and 5.1%, or R4.5 billion, in the 2024/25 and 2025/26 financial years, respectively, is also welcomed.
2. SALGA supports the refinement of the LGES formula in an effort to arrive at a cost-reflective basis for rendering basic municipal services as articulated in the 2022 MTBPS.
3. SALGA acknowledges the government's takeover of ESKOM debt and is awaiting the Circular for conditions for municipal debt relief.
4. SALGA supports that integrated approach to local government capability development led by National Treasury and supports the update to the municipal borrowing policy framework and the approval of the Municipal Fiscal Powers and Functions Amendment Act
5. That the upward trajectory in local government allocations from nationally raised revenue be maintained in order to realise the aspirations contained in the 1998 White Paper on Local Government in respect of subsidising the provision of basic services.
6. The Local Government Summit noted that there is disequilibrium in the allocation of resources versus the allocation of functions, and SALGA is working on developing the ideal allocation of nationally raised revenue to local government.



# Recommendations on the 2023 Budget and DoR Bill

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1. SALGA recommends that:
2. All stakeholders in intergovernmental fiscal relations support the recommendations of the LG Summit: for SALGA to propose an ideal allocation of nationally raised revenue to local government.
3. It be included in the consultations on the Circular dealing with the conditions for debt relief for municipalities
4. It be consulted on the norms and standards to regulate municipal surcharges on electricity. The 2024/25 budget consultation process address the following:
  - 4.1 Government debt owed to municipalities
  - 4.2 Fiscal and service delivery pressures on border municipalities
  - 4.3 Reversal of emergency housing grant to local government
  - 4.4 Any consolidation of conditional grants to be Schedule 5 grants.



# Thank You



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