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LOCAL GOVERNMENT EQUITABLE SHARE FORMULA REVIEW

Overview of the review process

The local government equitable share (LGES) formula was being reviewed during 2012, with the aim of introducing a revised formula for use in the 2013 Budget. The review process was undertaken by a working group comprised of representatives of the National Treasury, the Department of Cooperative Governance and the South African Local Government Association and in partnership with the Financial and Fiscal Commission and Statistics South Africa. The process to review the formula included extensive input from stakeholders to enrich the review with the ideas and insight from municipalities as well as other interested parties.

Context

The LGES formula review forms part of the review of the local government functional and fiscal framework (LGFFF) being undertaken jointly by the Department of Cooperative Governance and the National Treasury. The LGFFF review has a much broader scope to review the different aspects of the functional and fiscal arrangements of the local government system. Many of the issues not dealt with in this review (due to its limited scope of only examining the LGES formula) will be addressed as part of the broader LGFFF review.

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Scope of the review

This review had the scope to propose the introduction of a new LGES formula and was not limited to only recommending adjustments to the structure of the current formula. However, the review was subject to the following limitations:

- This was a review of the local government equitable share *formula* used to allocate funds among municipalities and did not examine the vertical division of revenue between the local, provincial and national spheres of government. The vertical division of revenue is decided on as part of the national budget process which takes account of the different priorities for additional expenditure by the three spheres. Examining the total size of local government's share of nationally raised revenue is a separate question that was beyond the scope of this review. Keeping these questions separate was necessary to ensure the formula itself was evaluated thoroughly and that this process did not get diverted by a debate over the size of transfers to local government.
- This review did not include a review of the RSC/JSB levies replacement grant.
- The LGES formula review worked within the existing system of functional assignments of municipalities (e.g. the division of powers and functions between local and district municipalities and between municipalities and provinces).

Process for reviewing the formula

The formula review was conducted in three stages:

- *Stage 1: Agree on principles and objectives for the formula* – Discussion papers were circulated to all municipalities for comment and six workshops held around the country. The proposed principles and objectives were (with some amendments) broadly accepted by stakeholders.
- *Stage 2: Agree on a new formula structure* – Based on the principles and objectives agreed above, a new formula structure was constructed. A detailed discussion paper was circulated for comment and a workshop was held that was attended by over 100 representatives from municipalities across the country. The new formula structure was generally welcomed and on 8 October 2012 the formula structure was endorsed by the Budget Forum and the LGES working group was given a mandate to input the 2011 Census data into the formula, determine allocations and propose a phase-in process.
- *Stage 3: Finalise new formula, allocations and phase-in* – The technical working group has used the 2011 Census data received from StatsSA in November 2012 to construct and fine-tune the new formula and determine draft allocations. The new formula was approved by the LGES Review steering committee (comprising senior officials of the partner organisations). The formula now requires approval by the Minister of Finance, the Budget Forum and Cabinet.

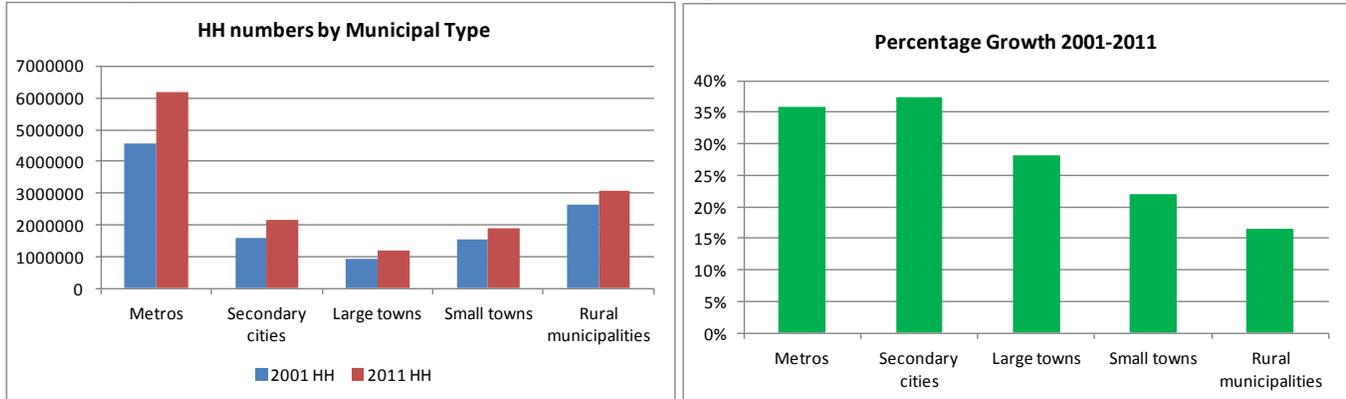
Impact of the 2011 Census

The new formula is being introduced at the same time as the data being used to allocate the LGES is being updated from the 2001 Census to the 2011 Census. This timing is deliberate as it will allow government to phase-in the impact of the new formula and data updates at the same time, minimising the disruptions to municipal budgets. The figures below show how different the rate of

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household growth has been in different types of municipalities (municipalities provide most services to households so this is the most appropriate unit in terms of which to describe growth). Urban municipalities have tended to grow much more rapidly than rural municipalities.

Comparing the number of households, and percentage growth per type of municipality between 2001 and 2011



Documents on the review process

Three discussion papers were released during the LGES formula review process. These are all publically available at:

http://mfma.treasury.gov.za/Media_Releases/LGESDiscussions/Pages/default.aspx

The final formula allocations (including the phase-in effect) will be tabled on 27 February by the Minister of Finance as part of the 2013 Division of Revenue Bill. The Explanatory Memorandum to the Division of Revenue Bill will include a full write-up on the new formula and how it will be phased in. Details of how each municipality's allocation was determined (data, components, phase-in impact and five year projected allocations) will be published at the internet address cited above.
