



# RESPONSE TO 2021 MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS) & DIVISION OF REVENUE BILL (DoRB)

Select Committee on Appropriations

SALGA NEC Member: Bongani Baloyi

30 November 2021



[www.salga.org.za](http://www.salga.org.za)

# Presentation Outline



Presentation outline

Purpose of the presentation

Legislative background

Parliamentary engagement process on 2021 MTBPS and DoRB

2021 MTBPS Macro Economic Outlook

Organised Local Government position on 2021 MTBPS & DoRB

Conclusion and Recommendations



The purpose of the presentation is to:

- provide the Select Committee on Appropriations with Organised Local Government comments on the 2021 Medium-Term Budget Policy Statement and the 2021 Division of Revenue Amendment Bill.

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

- In S6 the IGFR describes the Budget Forum as a body that is constituted by the three spheres of government, with SALGA being the representative body for 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.

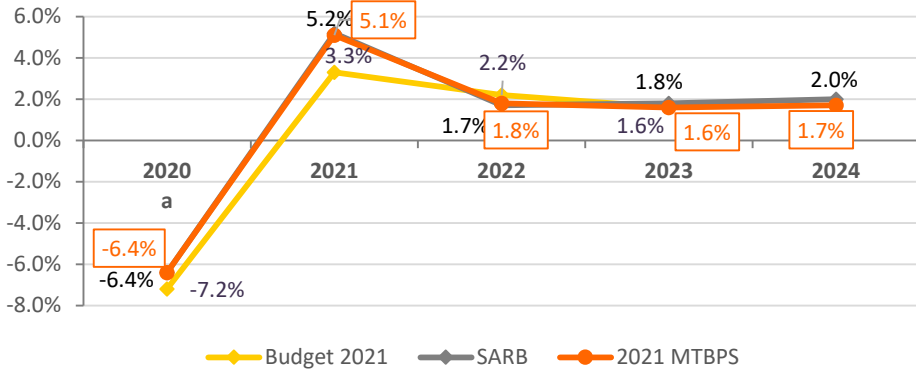
# Road to Parliamentary engagement process on MTBPS and DoRB



# 2021 MTBPS & DoRB Macro Economic Outlook



Projected GDP for 2021 to 2021 MTEF

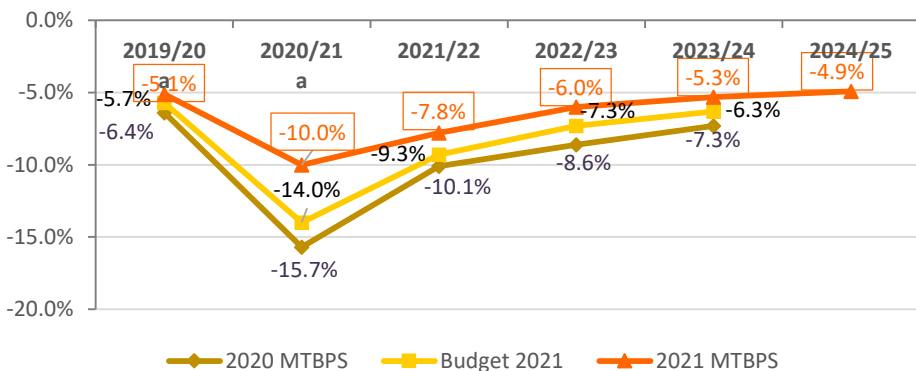


## Key points from MTBPS:



- Economy is expected to grow by 5.1% in 2021, 1.8% in 2022) but projected to return to pre-pandemic levels in 2022, due to global demand, higher commodity prices and the easing of COVID-19 lockdown restrictions.

Fiscal deficit as percentage of GDP



- Fiscal deficit is expected to narrow from 7.8 per cent of GDP in 2021/22 to 4.9 per cent of GDP in 2024/25.

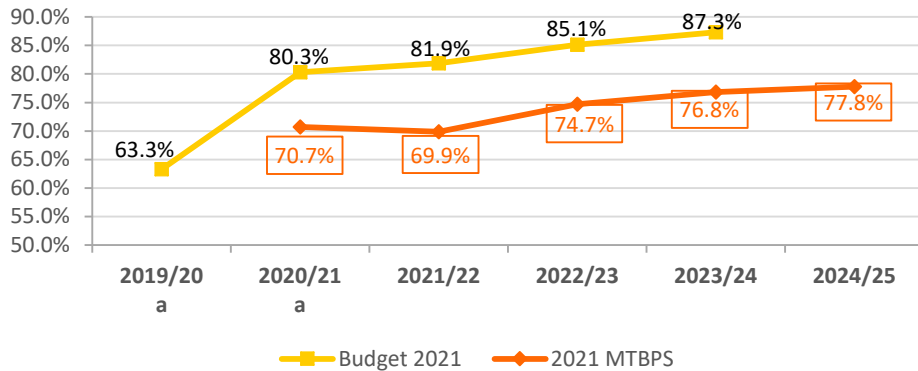


- The 2021 MTBPS plots a course of narrowing the budget deficit.

Source: 2021 Medium Term Budget Policy Statement: Page 2

## Key points from MTBPS:

Gross government debt as percentage of GDP



- Government gross loan debt increasing from 69.9% of GDP in 2021/2022 to 77.8% of GDP by 2024/25, in the absence of policy adjustments.
- Debt is expected to peak at 78.1 per cent of GDP by 2025/26 and decrease thereafter.



- Fiscal consolidation is critical to reduce the public debt burden, restore investor confidence and avoid overexposure to global and domestic risks.
- The Medium Term Budget Policy Statement (MTBPS) proposes to maintain restraint in public expenditure.

Source: 2021 Medium Term Budget Policy Statement: Page 1



## Key points from MTBPS:

### Consolidated government fiscal framework

	2020/21 a	2021/22	2022/23	2023/24	2024/25
<i>R billion</i>					
<b>Revenue</b>	R 1,414.1	R 1,648.8	R 1,695.7	R 1,772.7	R 1,890.9
<b>% of GDP</b>	25.4%	26.7%	26.7%	26.5%	26.6%
<b>Expenditure</b>	(R 1,971.8)	R 2,128.5	R 2,075.0	R 2,126.3	R 2,239.9
<b>% of GDP</b>	35.4%	34.5%	32.7%	31.7%	31.5%
<b>Budget balance</b>	(R 557.7)	(R 479.7)	(R 379.3)	(R 353.6)	(R 348.9)
<b>% of GDP</b>	-10.0%	-7.8%	-6.0%	-5.3%	-4.9%
<b>Total gross loan debt</b>	R 3,935.7	R 4,313.9	R 4,744.7	R 5,144.4	R 5,537.6
<b>% of GDP</b>	70.7%	69.9%	74.7%	76.8%	77.8%



**Gross loan debt** The R4 trillion in debt that we now owe is incurring debt service costs that will become the largest portion of spending, compared to individual functions, from next year.



**Revenue** for 2021/22 is now estimated to reach R1.5 trillion, compared to R1.4 trillion at the time of the 2021 Budget in February. This is an upward revision of R120.3 billion. Yet these temporary benefits are projected to fall short of pre-COVID-19 expectations over the medium term and weak growth in all tax categories.

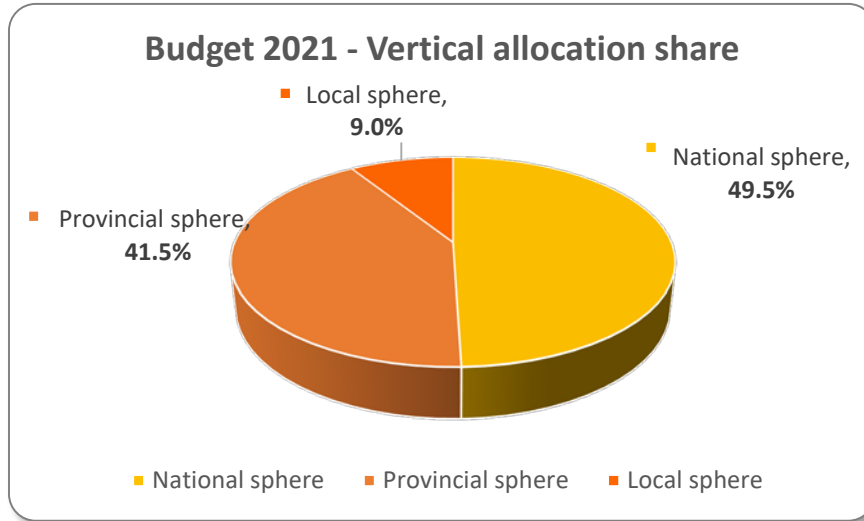


There are 27.8 million **social grants** recipients which accounts for ± 46% of RSA population, whilst the **number of people working** has declined.

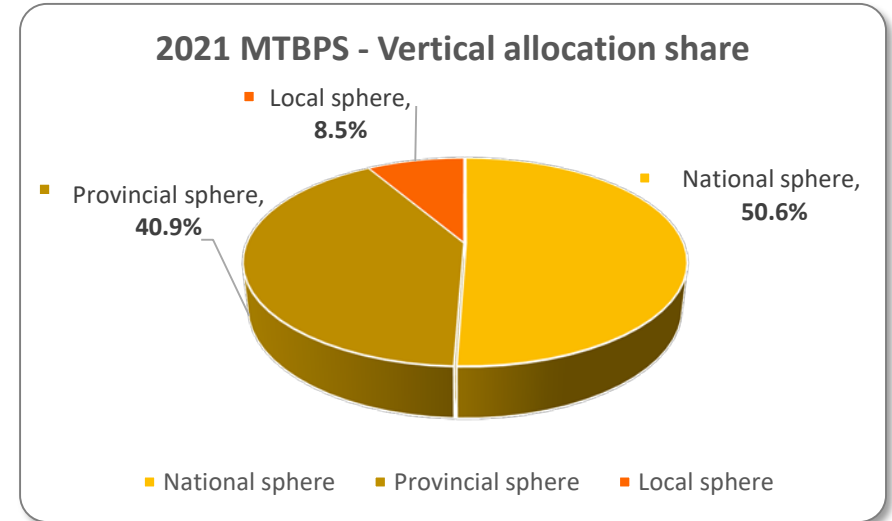


**Local Government** is allocated more than R450 billion from the national fiscus over the 2022 MTEF cycle.

## Overview of 2021 MTBPS versus Budget 2021:



Vs.



- **Local Government's** allocation from nationally raised revenue contracts to **8.5%** (Budget 2021: 9%). In monetary terms the allocation is **R137.6 billion** compared to R138.1 billion that was tabled in February 2021.
- The allocation to the **Provincial Government** contracts to **40.9%** from 41.5% after the MTBPS.
- **National Government's** allocation increases from 49.5% to **50.6%** after the MTBPS.

# Organised Local Government position on 2021 MTBPS & DoRB

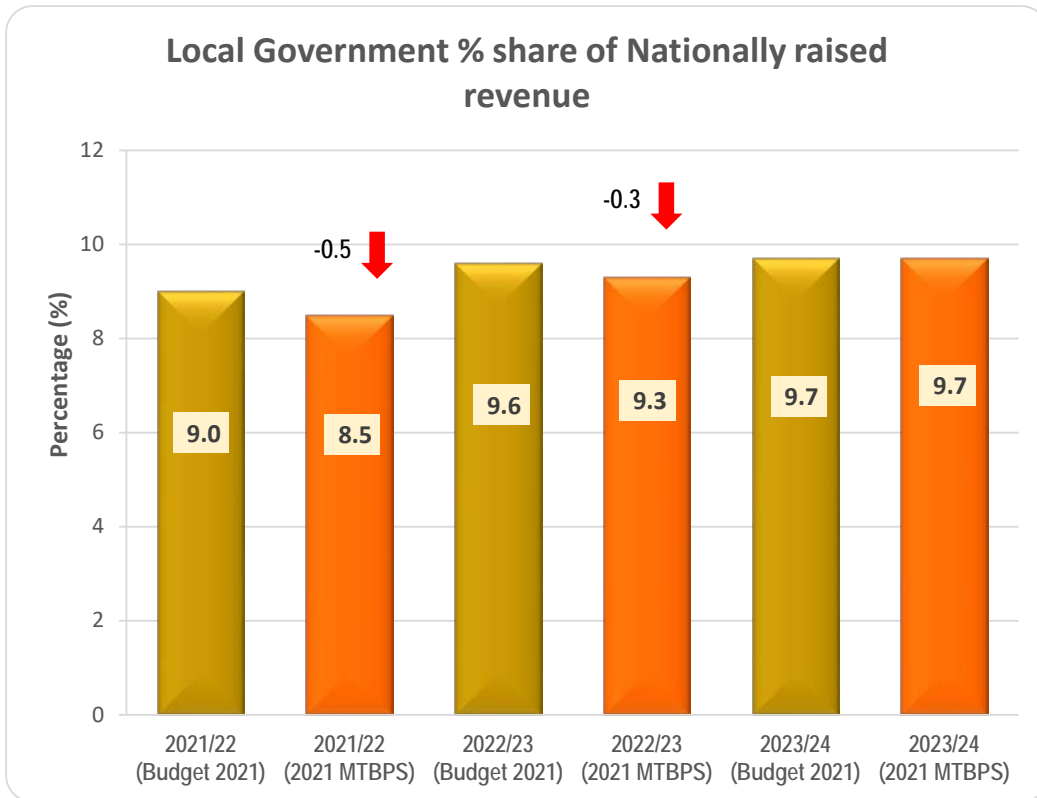


	2021/22	2022/23	2023/24	2024/25
<i>R billion</i>				
<b>National sphere</b>	R 817.4	R 764.7	R 743.0	R 774.4
<b>Provincial sphere</b>	R 672.2	R 658.4	R 647.2	R 676.1
<b>Local sphere</b>	R 137.6	R 146.3	R 148.9	R 155.4

	2020/21	2021/22	2022/23	2023/24
<i>R billion</i>				
<b>National sphere</b>	R 804.5	R 763.3	R 736.3	R 739.0
<b>Provincial sphere</b>	R 628.3	R 639.5	R 643.3	R 646.8
<b>Local sphere</b>	R 138.5	R 138.1	R 146.1	R 148.4



- Organised local government welcomes the increase in the allocation to the local sphere of government for the 2022/23 to 2023/24 MTEF of R0.7 billion or 0.2% to **R295.2 billion** when comparing. This is based on the comparison of the 2021 MTBPS to the Budget 2021 delivered in February 2021.
- Although miniscule we note the downward adjustment of the 2021/22 financial year allocation by **R0.5 billion** or -0.4% when comparing the 2021 MTBPS at R137.6 billion versus the Budget 2021 at R138.1 billion.
- Despite these reductions Organised local government acknowledges the need reduce the deficit and provide additional short-term support for health, social protection, job creation, and peace and security. The 2021 MTBPS anticipates a primary budget surplus by 2024/25, thereby bringing the period of fiscal consolidation to an end.



- There's an overall reduction in the local government allocation per the 2021 MTBPS versus the Budget 2021.
- Movement for the 2021 MTBPS is as follows:
  - 2021/22 financial year decrease of 0.5%
  - 2022/23 financial year decrease of 0.3%
  - 2023/24 financial year no change
- Despite these reductions Organised local government acknowledges the tough economic outlook and limited fiscal space that has been exacerbated by the significant negative impact of Covid19 on the economy.
- Organised local government supports the reduction of the budget deficit and stabilising of the debt to GDP ratio.
- The macro economic strategy that includes fiscal consolidation to curb additional spending and maintain the expenditure ceiling is supported.

## 2021 MTBPS charts a course over the MTEF period, to a primary budget surplus by 2024/25



- The 2021 MTBPS proposes to allocate 48.4% to national departments, 42% to provinces and 9.6% to local government over the next 3 years.
- This proposal shall result in resources allocated over the next three years to national departments contracting by an annual average of 1.8%, provincial resources increasing by 0.7% and **local government increasing by 4.1%**.

Source: 2021 Medium Term Budget Policy Statement: Page 46



### *White Paper on Local Government promise:*

- ❑ *The local sphere of government is entitled to an “equitable share” of nationally raised revenue in order that it may “provide basic services and perform the functions allocated to it”.*
- *The proposed increase in the allocation to local government over the next 3 years will gradually bring to reality the promise contained in the White Paper on Local Government of an equitable share of nationally raised revenue.*
- *Consequently, Organised Local Government supports the proposal.*

*2021 MTBPS charts a course over the MTEF period, to a primary budget surplus by 2024/25*

## Schedule 1

*Equitable Division of Revenue Raised Nationally amongst the three spheres of government*

Sphere of Government	Column A		
	2021/22 Main Allocation	Adjustment	2021/22 Adjusted Allocation
<i>R billion</i>			
National	R 1,232.6	R 44.0	R 1,276.5
Provincial	R 523.7	R 21.1	R 544.8
Local	R 78.0	-	R 78.0
<b>Total</b>	<b>R 1,834.3</b>	<b>R 65.1</b>	<b>R 1,899.4</b>



- *There is no adjustment to the equitable share allocation for the 2021/22 financial year.*

## Changes to the structure of local government allocations



- *“The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period”.*

Source: 2021 Medium Term Budget Policy Statement: Page 48



### **White Paper on Local Government promise:**

- ❑ *Local government cannot be solely responsible for redistribution, and national government has a critical role to play in this regard, particularly with respect to subsidising the provision of basic services. The “equitable share” of national revenue\* to which local government is entitled will be directed primarily at this purpose.*
- *The update to the LGES formula is welcomed in that indicates a move towards a more cost-reflective allocation to adequately cover the cost of providing basic services to communities.*
- *Consequently, Organised Local Government supports the proposal.*



## Changes to the structure of local government allocations - Infrastructure Development



- *“The Infrastructure Fund is an important intervention towards our strategic goal of ensuring that total investment in public infrastructure is nearly 30 per cent of gross fixed capital formation by 2030, as envisioned in the National Development Plan.*
- *We will maintain our commitment to the Fund, including allocating R100 billion over a decade from 2019/20, as committed to in the previous budget”.*

Source: 2021 Medium Term Budget Policy Statement: Page 48 & Minister's Budget Speech



### White Paper on Local Government promise:

- Development and investment: Meeting basic needs in the context of existing service backlogs will require increased investment in municipal infrastructure.
- The minister's commitment to the infrastructure fund over the decade ahead is welcomed. **SALGA aims to be part of the collaborative initiative by the DBSA, ISA and other sector departments.**
- Salga will work with the infrastructure fund to support municipalities to develop feasible and bankable infrastructure plans to access funding. Project preparation remains a key impeding capability and bottleneck to municipalities channeling more projects through the funding pipeline. The National Treasury project preparation facility should ideally be made available to more municipalities. SALGA plans to engage with the DBSA project preparation office to establish ways to support municipalities.
- Investment in new infrastructure is critical, however Salga deems it opportune for the infrastructure fund, through its brownfield infrastructure projects, to target the financing of refurbishment of existing infrastructure. This will guarantee sustainable provision of services throughout this infrastructure's life cycle.

## Changes to the structure of local government allocations - Infrastructure Development

### Schedule , Part B

### Specific-purpose allocations to municipalities

Name of allocation <i>R million</i>	Column A		
	2021/22 Main Allocation	Adjustment	2021/22 Adjusted Allocation
Municipal Systems Improvement Grant	-	-	-
Programme and Project Preparation Support Grant	R 341.3	-	R 341.3
Infrastructure Skills Development Grant	R 155.2	-	R 155.2
Local Government Financial Management Grant	R 552.1	-	R 552.1
Expanded Public Works Programme Integrated Grant for Municipalities	R 758.7	-	R 758.7
Integrated Urban Development Grant	R 1,009.1	-	R 1,009.1
Municipal Infrastructure Grant	R 15,592.7	-	R 15,592.7
Informal Settlements Upgrading Partnership Grant: Municipalities	R 3,945.4	-	R 3,945.4
Energy Efficiency and Demand Side Management Grant	R 220.9	-	R 220.9
Integrated National Electrification Programme (Municipal) Grant	R 2,003.2	-	R 2,003.2
Neighbourhood Development Partnership Grant (Capital)	R 566.6	R 751.0	R 1,317.6
Public Transport Network Grant	R 6,514.5	(R 1,340.0)	R 5,174.5
Rural Roads Asset Management Systems Grant	R 109.9	-	R 109.9
Regional Bulk Infrastructure Grant	R 2,156.0	R 81.3	R 2,237.4
Water Services Infrastructure Grant	R 3,620.3	-	R 3,620.3
<b>Total</b>	<b>R 37,545.9</b>	<b>(R 507.7)</b>	<b>R 37,038.3</b>



- R841 million is added to the direct neighbourhood development partnership grant for local government to create 32 663 jobs through precinct management, community safety, place-making, greening, integrated waste management and digitalisation, with special focus on poor and marginalised areas and economic nodes.
- R81 million is added to the direct regional bulk infrastructure grant for George Local Municipality for the implementation of the portable water security and remedial works project.

Source: 2021 Division of Revenue Bill

## Reviewing the structure of the local government fiscal framework



- “Between August 2020 and July 2021, the special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate consultation on local government finances – met three times to discuss municipal sustainability, the local government fiscal and functional framework, and asset management and infrastructure funding. Flowing from these deliberations, the National Treasury, Department of Cooperative Governance, South African Local Government Association, Financial and Fiscal Commission and provinces are implementing and monitoring joint working plans for a five-year local government reform”.*

Source: 2021 Medium Term Budget Policy Statement: Page 48



### White Paper on Local Government promise:

- The local sphere of government is entitled to an “equitable share” of nationally raised revenue in order that it may “provide basic services and perform the functions allocated to it”.*
- SALGA participates at the Budget Forum, and developed concept notes for the Budget Forum Lekgotla with the recent one on Asset Management and Infrastructure Financing held on 23 July 2021.*
- The 2021 MTBPS pronouncement indicate a measured move towards the realization of the aspects previously raised by SALGA.*

## Towards building capable local government



- *“Many municipalities have insufficient capacity to fulfil their financial responsibilities. This is evident in overreliance on external financial consultants: municipalities spent over R1 billion on financial reporting consultants in 2019/20, even though financial reporting is a core responsibility of their internal finance units”.*

Source: 2021 Medium Term Budget Policy Statement: Page 48

### White Paper on Local Government promise:

- ❑ *Accountability, transparency and good governance: Accounting and financial reporting procedures should minimise opportunities for corruption and malpractice.*

- *The SALGA NEC had made resolutions on 18 June 2020 and on 30 June 2021 on measures to extract Accountability and Consequence Management from municipalities with poor audit outcomes and lack sound financial management practices. Further, the measures adopted by the organization to extract **Accountability and Consequence Management** were tabled at the 21 August 2020 Budget Forum by SALGA and CoGTA under the topic Governance and Leadership.*
- *In relation to the over-use of financial consultants SALGA communicated with top 20 municipalities featuring on the 2019/20 MFMA audit outcomes to establish the extent of these municipalities adhering to regulations pertaining to use of consultants vis-à-vis the transfer of skills and consultancy reduction plans. Directed that these municipalities conduct skills assessment of their Finance units.*



## *Towards building capable local government (continued)*

- *The SALGA NEC resolutions include the following amongst others:*
  - *A skills assessment be conducted in the finance offices of all municipalities with the view to establish the capacity of such municipalities to overcome their financial management challenges.*
- *The Budget Forum held on 21 August 2020 also echoed the above mentioned measures and resolved as follows amongst others:*
  - *A stronger focus on the adoption of funded municipal budgets, improved revenue management practices and improved audit outcomes with less reliance on service providers.*
  - *The enforcement of legislative measures to address consequence management and instill accountability, particularly in the case of poor service delivery, wastage of public funds and corruption, requires collective action to be effective.*

## On igniting growth through diversifying electricity / energy sources



- “We have already made significant progress in correcting this: the amendment of Schedule 2 of the Electricity Regulation Act of 2006, has raised the licensing threshold from 1 to 100 megawatts. It has also made it possible for private power generators to sell directly to customers. This will alleviate the risk of power cuts. The amended regulations will further enable municipalities to self-generate or procure power directly from independent power producers. We have also begun to reduce our reliance on Eskom by diversifying our primary energy sources”.

Source: Minister's Budget Speech



### White Paper on Local Government promise:

- *Local government is responsible for the provision of household infrastructure and services, an essential component of social and economic development. This includes services such as water, sanitation, local roads, stormwater drainage, refuse collection and electricity.*
- *SALGA welcomes the Amended Schedule 2: Exemption from obligation to apply for and hold a license, which has increased the licensing threshold from 1 to 100 MW exempted from holding the generation license that was Gazetted on 20 August 2021. This is a positive gain for the industry, in particular local government, and a positive development that will unlock substantial private investment in new generation capacity, and it will rapidly alleviate the ongoing, power generation capacity shortfalls and loadshedding in South Africa. The amended Schedule 2 is a direct response to the SALGA 2018 Energy Summit Resolutions/Declarations.*
- *The amended Schedule 2 has levelled the playing field and will enable municipalities and private investors as partners to implement renewable energy projects speedily without the delay caused by rigorous licensing application process.*

## On igniting growth through diversifying electricity / energy sources (continued)



- “The gains from this diversification are demonstrated by the outcome of the most recent round of the Renewable Energy Independent Power Producer (REIPP) programme. The 25 projects that are part of the latest round of Bid Window 5, will generate more than 2 500 megawatts of power at a weighted average price of 47.3 cents per kilo watt hour”.

Source: Minister's Budget Speech



### White Paper on Local Government promise:

- *Local government is responsible for the provision of household infrastructure and services, an essential component of social and economic development. This includes services such as water, sanitation, local roads, stormwater drainage, refuse collection and electricity.*
- *The REIPP programme has been the IPPs, DMRE and Eskom partnership, with no room for local government to participate, this programme is a single buyer model programme which only pronounces Eskom as the main role player in buying the power from the IPPs. A single buyer model may not be sustainable in the future.*
- *One of the SALGA 2018 Energy Summit Declaration was that the current regulatory environment is inhibiting instead of enabling the transition, where neither the energy transition nor the role of local government are acknowledged within the IRP.*
- *A progressive policy would be to allow municipalities as an organs of state to apply to the Minister to procure new generation capacity in accordance with the IRP.*

## On igniting growth through improvement of bulk Water resources



- "...the water sector, legislative drafting and financial modelling have been done to establish a National Water Resources Infrastructure Agency, responsible for improving the management of bulk water resources".
- "The Department of Water and Sanitation is fast-tracking its application process to ensure that the 90-day target for issuing single-use water licenses will be implemented by March 2022, as part of improving ease of doing business"

Source: Minister's Budget Speech



### White Paper on Local Government promise:

- *Local government is responsible for the provision of household infrastructure and services, an essential component of social and economic development. This includes services such as water, sanitation, local roads, stormwater drainage, refuse collection and electricity.*
- *The establishment of the National Water Resources Infrastructure Agency was pronounced in SONA and the MTBPS is providing feedback on progress to date. SALGA supports the establishment of NWRIA and appreciates the feedback outlined in the MTBPS. To this end, it would be important for SALGA to be afforded an opportunity to reflect on the legislative framework and financial modelling anticipated to govern the establishment process with the sector department.*
- *This pronouncement is welcomed. It is our understanding that already the issuance of the water licenses within the 90 days is being implemented in fast tracking the roll out of Water SIPs project.*



- SALGA acknowledges the tough economic and fiscal environment that the country finds itself and further exacerbated by the significant negative impact that Covid19 has had on the economy.
- SALGA supports the government in reducing the budget deficit and stabilising the debt to GDP ratio.
- SALGA supports the macro economic strategy of the government including fiscal consolidation to curb additional spending and maintain the expenditure ceiling.
- The increase in social spending to minimise the impact of COVID-19 on households is well received.

# Conclusion and recommendations



## Macro-economic and Fiscal environment

- The COVID-19 has exacerbated the South African economic crisis particularly hitting social spending.
- This calls for structural reforms on public finances by exercising restraint and prudent financial management.
- A positive economic outlook will only be realized through sustained monetary and fiscal support.
- The South African economy grew faster than expected in the first half of 2021, but this momentum is expected to wane following public violence in July, port and rail disruptions, and the third wave of COVID-19 infection
- Real GDP is forecast to grow by 5.1 per cent in 2021 and household consumption has improved but has not fully recovered from the pandemic
- In line with government's commitment to support vulnerable households, particularly given the impact of COVID-19, additional resources for social protection will be considered, if the fiscal situation improves by February 2022.

## Macro-economic and Fiscal environment

- The COVID-19 has exacerbated the South African economic crisis particularly hitting social spending.
- This calls for structural reforms on public finances by exercising restraint and prudent financial management.
- A positive economic outlook will only be realized through sustained monetary and fiscal support.
- The South African economy grew faster than expected in the first half of 2021, but this momentum is expected to wane following public violence in July, port and rail disruptions, and the third wave of COVID-19 infection
- Real GDP is forecast to grow by 5.1 per cent in 2021 and household consumption has improved but has not fully recovered from the pandemic
- In line with government's commitment to support vulnerable households, particularly given the impact of COVID-19, additional resources for social protection will be considered, if the fiscal situation improves by February 2022.

- Organised Local Government supports the Division of Revenue Bill.



SOUTH AFRICAN LOCAL  
GOVERNMENT ASSOCIATION

**SALGA**

*Inspiring service delivery*



[www.salga.org.za](http://www.salga.org.za)