



Comments on the 2023 Medium Term Budget Policy Statement (MTBPS) & Division of Revenue Amendment Bill

Standing Committee on Appropriations (SCoA)

Cllr. Lesetja Dikgale (NEC Member)

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Purpose of the Presentation

The purpose of the presentation is to:

- provide the Standing Committee on Appropriations with Organised Local Government comments on the 2022 Division of Revenue Amendment Bill (2023 MTBPS).



Constitutional background

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:
 - a) the national interest;
 - b) any provision that must be made in respect of the national debt and other national obligations;
 - c) ...
 - d) the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them;**
 - e) the fiscal capacity and efficiency of the provinces and municipalities;**
 - f) developmental and other needs of provinces, local government and municipalities;**
 - g) ...
 - h) obligations of the provinces and municipalities in terms of national legislation;**
 - i) the desirability of stable and predictable allocations of revenue shares; and
 - j) the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

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

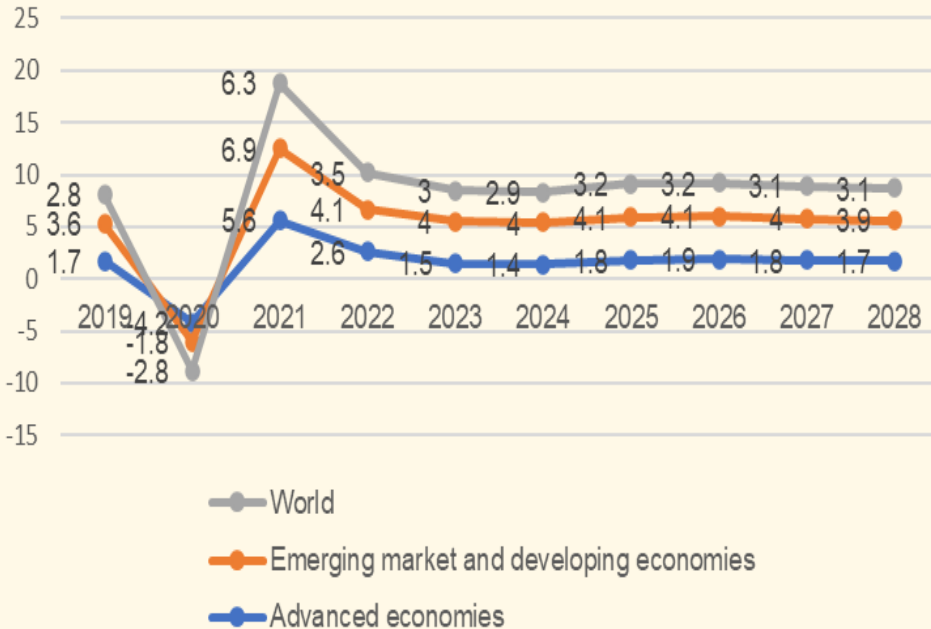
- In S6 the IGFR describes the Budget Forum as a body that is constituted by the three spheres of government, with SALGA being the representative body for the local sphere of government.
- S6(a) to (d) outlines the Forum's role as the consultation space for the following aspects:
 - *any fiscal, budgetary 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.

Economic & Fiscal Policy Outlook



Global economic outlook

Global GDP Growth



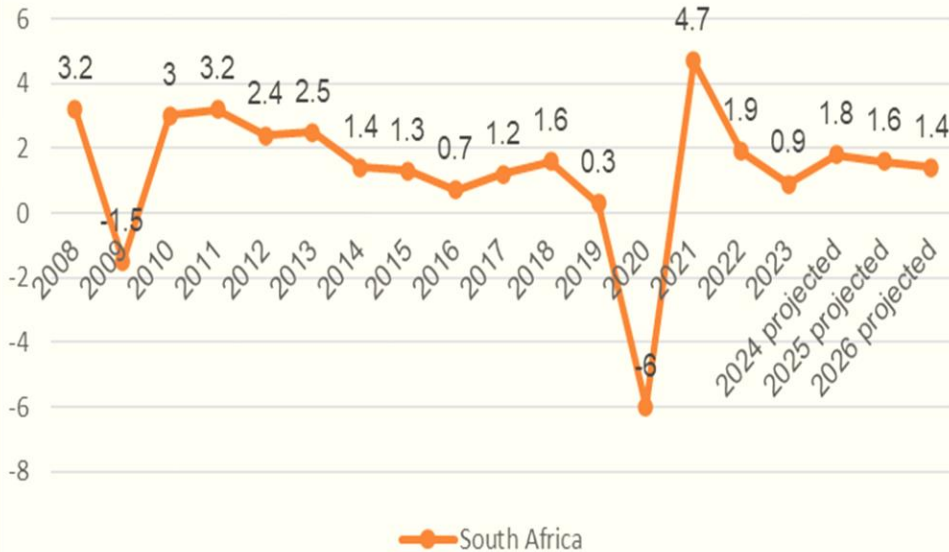
- A weaker global growth outlook and the risks thereof will have significant implications for local government, may result to reduced nationally raised revenue that impacts on the funding allocation to local government.
- Local government is facing increased pressure to deliver more services with declining budgets. This will lead to delays in service delivery and deteriorating service quality as local government struggle to cope with limited resources.
- SALGA recommends that national government design a comprehensive social security programme to protect vulnerable communities that are impacted by the negative global economic outlook and its effects.

2023 MTBPS,p3



Domestic economic outlook

South African GDP Growth
2008 - 2026



- **The revised GDP growth forecast** – will have the following negative implications to Local Government:
 - Increased interest rates will result in high debts servicing costs for municipalities.
 - High inflation erodes disposable income of households, will have an impact on municipal customers' ability to afford municipal accounts and pay off their outstanding debt.
 - National Government must fast track the energy and logistics reforms to expand the economy so that unemployment is reduced

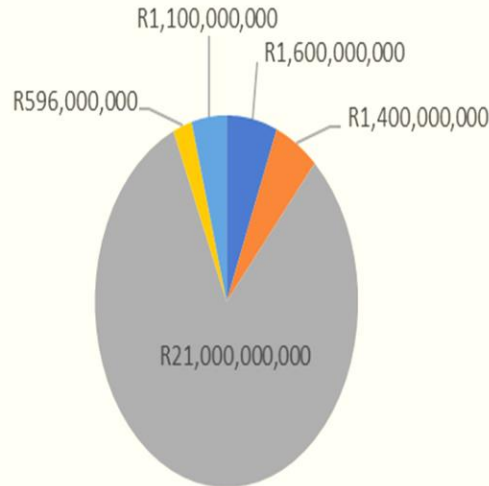
2023 MTBPS, p. 4



Domestic economic outlook conti....

Impact of loadshedding on municipal finances

- fixing vandalised, stolen electrical equipment and infrastructure and
- Cost for fixing vandalised WWTWs facilities
- Loss of revenue due to unserved energy
- Cost of security (electrical and WWTWs)
- Additional budget for overtime and contractors



SALGA study 2023

- **Loadshedding** continues to have negative implications to Local Government.
- SALGA study(2023) on the impact of loadshedding on infrastructure and finances found that:
 - R21 billion was lost due to unserved energy
 - R1.6 billion was spent on fixing vandalized, stolen electrical infrastructure and equipment
 - R1.4 billion was spent on fixing vandalized WWTW facilities
 - R1.1 billion was spent on overtime and contractors
 - R596 million was spent on security (electrical and WWTW)

Infrastructure delivery

- Welcomes the initiatives to increase include private sector in financing public infrastructure.
- Welcomes the review of the PPP regulations as this will unlock financing, technical capabilities and greater participation in PPP projects.
- Propose consultation of organized local government on all municipal legislative changes as well as constant impact assessment of legislation to achieve its intended outcomes

Risks to the fiscal outlook

Weaker-than-expected global and domestic economic growth, which would slow revenue growth and widen the budget deficit.

Continued losses by municipalities and state-owned companies, which would result in requests for bailouts.

Higher borrowing costs as a result of an elevated risk premium and tighter global monetary conditions.

- The implementation of the economic recovery strategies and investment into economic infrastructure projects inclusive of local economies in municipalities should be accelerated in the short and medium term.
- Continuous support by National Treasury in the areas of
 - funding for repairs and maintenance of basic services infrastructure to reduce distribution losses and service delivery disruptions,
 - Capacity building in the reduction of fruitless and wasteful expenditure
- Municipalities are encouraged to implement loss control strategies and policies and consequence management.

Conclusion and Recommendations on the economic outlook

Salga welcomes the review of the PPP regulations as this will unlock financing, technical capabilities and greater participation in PPP projects however it must be inclusive of Local Government.

SALGA recommends:

- that national government design a comprehensive social security programme to protect vulnerable communities that are impacted by the negative global economic outlook and its effects.
- that National Treasury notes the financial impact of power outages and must consider compensating municipalities for unintended costs associated with energy crisis.
- the implementation of the economic recovery strategies inclusive of local economies in municipalities to assist businesses in distress.
- That Local government must be allocated funding for the rehabilitation of roads damaged due to the failure of the rail system

2023 MTBPS and DoR Amendment Bill



Division of nationally raised revenue – 2023 MTBPS vs 2023 Budget

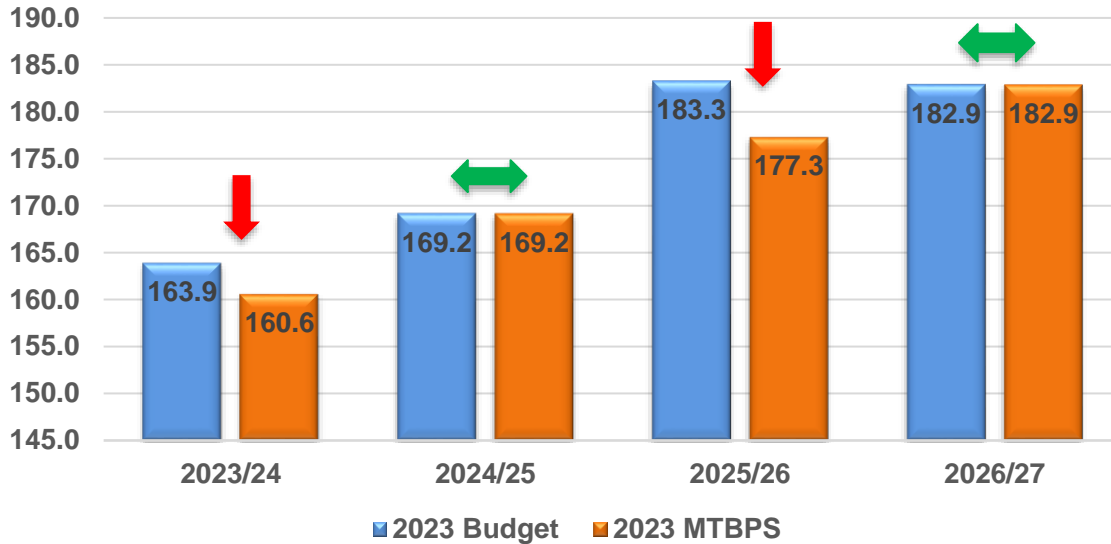
2023 MTBPS					
	2022/23	2023/24	2024/25	2025/26	2026/27
National sphere	855.9	826.3	840.9	846.4	884.2
Provincial sphere	694.1	706.4	720.5	752.4	784.6
Local sphere	150.7	160.6	169.2	177.3	182.9

2023 BUDGET					
	2022/23	2023/24	2024/25	2025/26	2026/27
National sphere	854.4	828.5	835.6	877.9	884.2
Provincial sphere	694.5	706.4	720.5	754.6	784.6
Local sphere	147.7	163.9	169.2	183.3	182.9

- Organised local government **note the decrease in allocation and does not accept the -0.02% or -R3.3 billion** downward revision of the gross allocation to local government for the 2023/24 financial year.
- Observed the marginal increase of **R8.6 billion** in the allocation to local government in from **2023/24 to 2024/25** however these allocations decreases over the MTEF cycle.

Division of nationally raised revenue – 2023 MTBPS (cont.)

2023 Budget vs 2023 MTBPS movement for LG allocations R'Billion

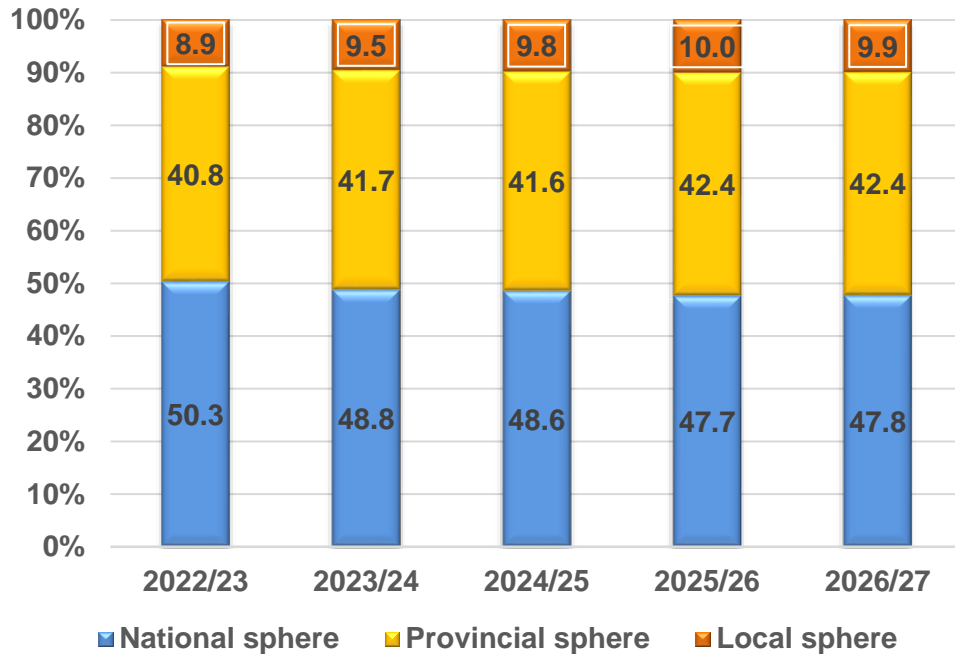


- MTEF budgeting continue to stagnate and decline for local government.
- Allocations for the MTEF ignores the current realities local government of growing expenditures which are outpacing eroding own revenues of municipalities.



Division of nationally raised revenue – 2023 MTBPS (cont.)

2023 MTBPS % Allocation for all Spheres of Government



- The share of nationally raised revenue from 2023-2024 MTBPS is as follows:
 - *National government – **48,8%** representing a decrease from 50.3% to 48.8%*
 - *Provincial government – **41.7%** representing an increase from 40.8% to 41.7%*
 - *Local government – **9,5%** representing an increase from 8.9% to 9.5%*
- Organised local government asserts that the structural under-funding of the local sphere of government and the realization of the aspirations contained on the White Paper on Local Government 1998 cannot be attained by decreases from nationally raised revenue.

Division of nationally raised revenue – 2023 MTBPS (cont.)

Figure 1 R 'billion

(R)Fiscal Transfer Growth

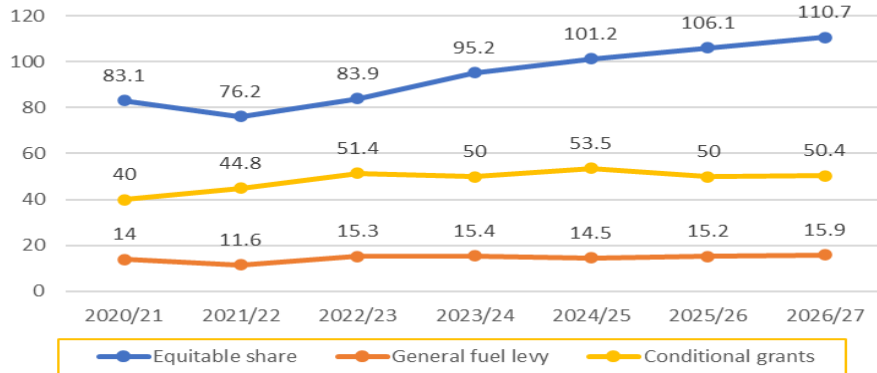
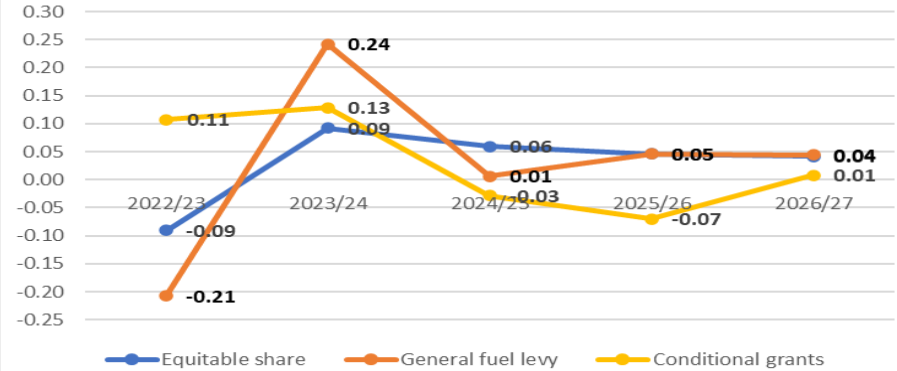


Figure 2

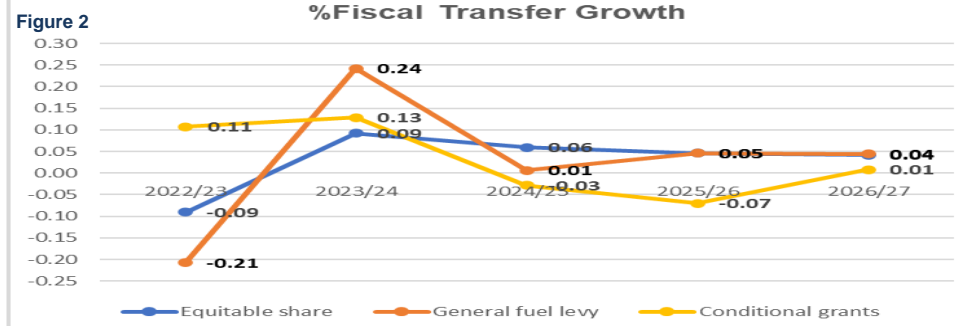
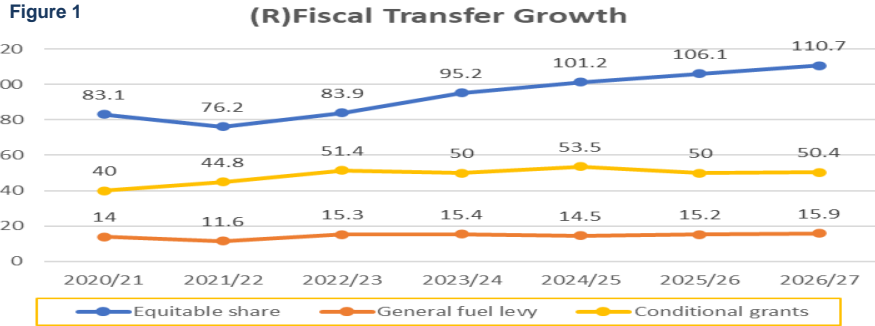
%Fiscal Transfer Growth



1. Equitable Share

- SALGA welcomes the 6% increase in 2024/25 financial year; however, the growth is on a downward trend over the outer years, which is quite concerning looking at the population growth and unemployment trends in municipalities.
- Recommends that increments should be adjusted for inflation to determine the real increases, without considering inflation, the proposed increase may not reflect genuine growth in funding as per figure 2.
- The national government must determine the Equitable Share allocations that takes into account the full costs in the formula.

Division of nationally raised revenue – 2023 MTBPS (cont.)



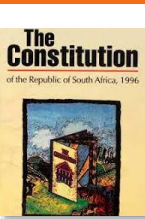
2. General Fuel Levy

- Local government's dependency on the General Fuel Levy is evident, however it insufficient cover the escalating cost in metropolitan municipalities.
- Recommends that the fuel levy must be extended to secondary cities.

3. Conditional Grants

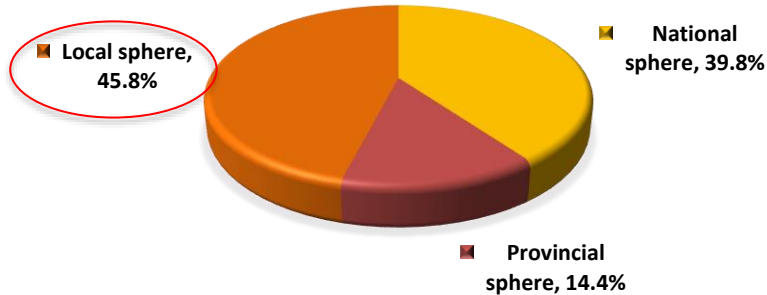
- Does not support of the proposed decrease in conditional grants for 2023/24 and concern about the potential impact on the planned local government projects and service delivery.
- Advocate for a transparent and consultative process in determining the focus areas for conditional grants to address local challenges effectively.

Disequilibrium in the division of nationally raised revenue



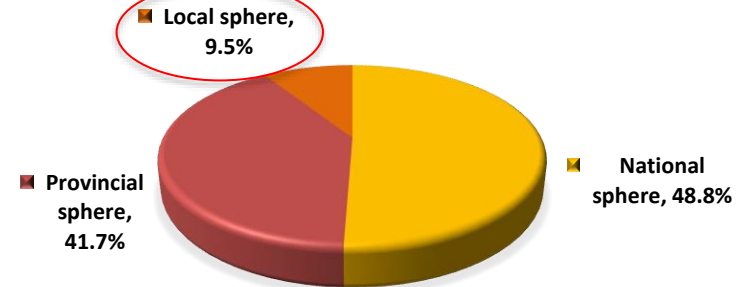
- s152(2) of the Constitution **obligates municipalities to strive to achieve the objects of local government within the financial and administrative capacity that exists.** A deeper analysis of these obligations indicates that the functions allocated to local government per the Constitution of the Republic far outweigh functions allocated to the other 2 spheres of government.
- Our analysis has established that local government is responsible for **46 per cent** of the constitutional functions whilst it receives the lowest share of nationally raised revenue.
- There is **disequilibrium in the allocation of resources versus the allocation of functions.**

SHARE OF CONSTITUTIONAL FUNCTIONS ALLOCATION PER SPHERE OF GOVERNMENT



Versus

2023 MTBPS - VERTICAL ALLOCATION SHARE FOR 2023/24 FINANCIAL YEAR



Provinces have concurrent powers in functional areas listed in Schedule 4 (shared with the national government) and exclusive powers about Schedule 5 matters. Municipalities have powers in respect of the functional areas listed in Schedules 4B and 5B. All residual matters are supposed to fall under the national government's jurisdiction.

SALGA's Study :

Review of local government fiscal framework

The Local Government Summit held in 2022 through the President of the country and endorsed by the Minister of Cooperative Governance and Traditional affairs mandated SALGA to spearhead and lead the process of the review of the Local Government Fiscal Framework.

- **Phase 1: Identify the fiscal gap in the vertical allocation of nationally raised revenue to local government and propose alternatives to closing this gap, based on a review of the Local Government Fiscal Framework.**
 - Determine the cost of running an ideal municipality
 - Determine the funding shortfall in the vertical allocation of nationally raised revenue to local government
 - Calculate an ideal percentage for the vertical allocation to local government from nationally raised revenue.
- **Phase 2: Determine funding shortfall per category of municipality (Metro, ICMs, B2, B3, B4, C1, C2)**
- **Phase 3: Review horizontal allocation of Equitable Share**
 - Community Service component
 - Institutional component
 - Revenue raising adjustment

Phase 1 is completed, and the project is due to be completed by the 31 March 2024.

Implementation Circular 124 – Municipal Eskom Debt Relief



SALGA supports the majority of the conditions and with an exception of one on the revocation of the distribution licence of municipalities.



SALGA also welcome the hands-on support programme provided by National Treasury through MFIP Technical Advisors and the transversal tender for smart prepaid meters.



It is important to reiterate the systematic challenges that still exist within those municipalities who have applied for the debt relief, including (low collection rates, aged infrastructure, illegal connections, loadshedding and high unemployment)



The above challenges are likely to impact municipalities' ability to maintain payment of their currents accounts to ESKOM and meet some of the conditions.



Funding will also be required for procurement of prepaid meters and water restriction devices since most municipalities have not made provision for these additional costs within their current budgets.



Whilst National Treasury has acknowledged the need for municipalities to undertake section 78 assessments as prescribed in the Municipal Systems Act, prior to requesting NERSA to revoke their electricity distribution license, we believe that condition 6.14 be removed and be amended to reflect section 78 assessment.

Conclusion and Recommendations – 2023/24 MTBPS and DoR Amendment Bill

SALGA:

- **does not accept the -0.02% or -R3.3 billion downward revision** of the gross allocation to local government for the 2023/24 financial year.
- has observed the marginal increase of R8.6 billion in the allocation to local government in from 2023/24 to 2024/25, **however these allocations decreases over the MTEF cycle.**
- has observed that allocations over the **MTEF ignores the current realities local government is facing**, particularly the **growing expenditures demands** that are outpacing eroding own revenues
- **asserts that there is still structural under-funding of the local government**, however Parliament must note that there is still work being undertaken to review the LG Funding Framework.
- that there is **no equity in the allocation of resources** versus the allocation of functions, and funding does not follow function.
- SALGA **recommends that condition 6.14 be removed and replaced with section 78 MSA assessments** and funding for smart meters and water collection tools for recipient of Eskom Debt Relief Package.



Thank You



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