national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

RESPONSE TO UNFOUNDED CLAIMS BY THE CITY OF CAPE TOWN OF UNFAIR ALLOCATIONS TO THE CITY BY THE NATIONAL TREASURY

The National Treasury wishes to respond to the article published in the Cape Times newspaper of February 18, 2009. The allegations made by the City that it was unfairly treated in the 2009 Budget allocations and is being punished for being well-run are simply untrue and is a distortion of facts.

The City contends that there has been a shortfall in its allocations compared to projections given in the 2008 Budget. However, these projections form part of the National Treasury's efforts to assist municipalities in putting in place multi-year budgeting and the amounts are only indicative. The City of Cape Town was therefore guaranteed to receive 90 per cent of the indicative amount for 2009/10 as per the 2008 Medium Term Expenditure Framework. The full amount allocated for the 2009 Budget is based on the equitable share formula. Furthermore, the Financial and Fiscal Commission, a Constitutional body, oversees this formula to ensure that it conforms to the principles espoused in Section 214 of the Constitution.

The City of Cape Town indicates that it falls in the same category as municipalities such as Ekurhuleni, which is allocated an equitable share amount of R1 billion in 2009/10 compared to Cape Town's R609 million. It appears that the City of Cape Town is not fully cognisant of the demographics that underpin how the formula works. The formula does indeed ensure that municipalities with similar socio-demographic and service delivery constraints will receive similar allocations. Although the population sizes of these two (and most other) metropolitan municipalities are similar, their levels of poverty and access to services vary. Ekurhuleni Metro has nearly 100 000 more poor households than the City of Cape Town (2001 Census) which explains at least part of the variance in the equitable share allocations between these two metros.

The City of Cape Town also raises the difference in the projected and actual grant allocation in terms of the Regional Services Council (RSC) replacement grant. Again, the projected amount was indicative only.

The City of Cape Town's contestation that the replacement grant amount is intended to replace the revenue from the abolished RSC levies is misleading. These RSC levies were abolished in 2006 as they were inequitable. The system was biased towards municipalities who had a strong company head office base, such as Johannesburg and Cape Town. Nearly 60 per cent of the 'metro' RSC levies collected accrued to these two metros only. However many companies with head offices in these two metros had large operations in other municipalities and provinces as well. These other metros did not receive the funds which were collected by the RSC levies. Naturally, with the introduction of a new revenue source, distribution would have to differ from the existing RSC levy distribution. Continuing to allocate funds along the same structures as the previous system would continue the flaws inherent to the RSC levies.

The general fuel levy was agreed upon as a replacement to the RSC levy after extensive consultation, including with local government stakeholders, and was politically endorsed. It complied with the four main criteria informing the replacement levy, mainly: an endeavor to maintain local government fiscal autonomy; to meet the criteria of a good (local) tax regime; closely approximate the same incidence as the RSC levies; and to protect municipalities from fiscal shocks. Government is phasing in the fuel levy over three years to ensure a smooth transition from the RSC levy replacement grant.

The National Treasury remains committed to a transparent budgeting system, protecting the poor and marginalised communities while ensuring that the macro-economic fundamentals remain in place.

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