

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 230 [NW261E]
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230. Mr N F Shivambu (EFF) to ask the Minister of Finance:

How does he plan to ensure that a significant budget allocation goes to local government, in view of local government receiving a budget allocation of a mere 9%, while the rest of the budget has been allocated for provincial and national government business?

NW261E

REPLY:

The division of revenue is allocated between the three spheres of government based on the functions and revenue raising powers of each sphere. Local government receives a smaller share of the division of revenue because municipalities have significant own revenue raising powers, which include property rates and service charges. Transfers from national government account for about a quarter of the total revenue of the local government sphere, with the remainder funded by own revenue. Therefore, the size of municipal budgets is not determined only by their allocations from national government but also by the revenue they raise themselves. As a result of this, cities can have larger budgets than some provinces.

The own revenue raising ability of municipalities differs greatly across the country. Some cities raise over 80 percent of their own revenue, while in some rural municipalities; up to 80 percent of municipal budgets are funded by transfers. The system of allocations to municipalities takes account of these differences by allocating more funding to those municipalities with less ability to raise own revenue.

The importance given to funding municipal services is reflected in that allocations to local government has grown faster than those to any other sphere over the last 15 years. The share of nationally raised revenue allocated to local government has increased from 3 percent in 2000/01 to 9 percent over the 2015 MTEF. Municipalities also benefit from indirect grants which are grants that national departments spend on behalf of municipalities. When these funds are taken into account, the share of revenue spent on local government increases to 10 percent.

To protect the ability of municipalities to provide free basic services to their residents, allocations for local government equitable share were not included in the reductions to baseline allocations that were announced in the 2014 Medium Term Budget Policy Statement. The local government equitable share is the largest transfer to local government and funds the provision of free basic services as well as administration costs and community services in poorer municipalities.