NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 226 [CW353E]
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226. Mr L B Gaehler (Eastern Cape: UDM) to ask the Minister of Finance:

(1) Whether the National Treasury has (a) put in place and (b) implemented any mechanisms to increase the revenue base of municipalities with financial constraints, especially those located in rural areas; if not, why not; if so, what mechanisms;

(2) whether the National Treasury has a concrete plan with clear targets and timeframes to assist municipalities to increase their revenue base; if not, why not; if so, what plan;

(3) whether the National Treasury has a sufficient budget to assist municipalities to address the huge infrastructure backlogs; if not, why not; if so, what are the relevant details?

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REPLY:

(1) (a)&(b) The National Treasury has assisted and will continue to support municipalities. There are significant differences in the levels of wealth and economic activity across the country and as a consequence of this some municipalities are able to raise significantly more revenue than others. Therefore the government's fiscal framework was created. The local government equitable share, which is the largest transfer to local government, has larger allocations (per capita) for municipalities that have less ability to raise own revenues.

The fiscal system compensates for economic disparities, it is imperative that every municipality maximizes the own revenues that it can raise from the collection of property rates, service charges and other revenue streams. In some cases the internal transactional processes and procedures within municipalities are deficient, thus contributing to weak revenue collection. Some of the more critical challenges identified are:-

- the increasing debtor amounts (debt owed to municipality by residents, business and organs of state);
- inability of the municipality to optimally maintain revenue generating infrastructure contributing to large amounts of water and electricity losses;
- inefficient billing processes;
- ineffective implementation of the credit control policies;
- tariffs that are not cost reflective; and
- poor processes to maintain the indigent registers.

Resulting from the observations and the magnitude of the challenge, the National Treasury decided to decisively address the root causes of the problem by embarking on a programme to assist municipalities with addressing inefficiencies in the revenue value chain and property rates value chain which is key to sustainability of the institution by assessing the effectiveness of the transactional processes and procedures amongst other issues. It must be noted that this programme may not necessarily increase the revenue base but it will contribute to maximising the revenue collected from the current base more effectively. The changes that are needed within municipalities to achieve this objective include ensuring all customers are being billed for the correct usage and at the correct rate, and ensuring that revenue generating assets are properly maintained to reduce losses on revenue generating services. In short, the focus will be on rebuilding the foundation of the revenue base which has been eroded over time.

(2) The revenue management programme is intended to provide an integrated approach to resolving some of the challenges by drawing on relevant resources from various departments and other stakeholders such as the Municipal Infrastructure Support Agent to assist. It must be reiterated that this programme may not necessarily increase the revenue base but it will contribute to maximising the use of the current base more effectively.

The equitable share formula that takes account of and compensates for the different revenue bases of municipalities is used to determine allocations in the annual Division of Revenue Act.

(3) The main constraint in eradicating backlogs is not a lack of available funding, but the efficiency with which the available infrastructure budgets are planned and spent. In 2016/17, Municipalities have been allocated R46.8 billion in infrastructure grants. Of this amount, R39.1 billion is allocated through direct conditional grants, and R7.7 billion is allocated through indirect grants that are spent by national departments on behalf of municipalities. If these large allocations are used efficiently they will have a significant impact on reducing backlogs.

The underspending on these allocations indicates that municipalities have difficulty to spend the full amounts transferred. National Government is working on improving the capacity of municipalities to plan for and implement infrastructure projects. In metros, the ‘City Support Programme’ is assisting cities to develop pipelines of planned projects, while in rural areas the Municipal Infrastructure Support Agent is leading capacity building efforts. In cases where municipalities cannot implement projects themselves, national departments can use indirect grants to build critical infrastructure on behalf of municipalities.

Finally, expanding the revenue base of a municipality is primarily the responsibility of the Mayor and Councillors who, where possible, need to develop plans and actions that explore local possibilities for both economic investment and change the culture of payment. This has to be complemented, supported or sometimes lead, by provinces and national departments. Building local capacity and partnerships to enable actual <u>delivery</u> and change is vital.