NATIONAL COUNCIL OF PROVINCES
QUESTION FOR ORAL REPLY
QUESTION NUMBER: 296 [CO629E]

★296. Mr F Essack (Mpumalanga: DA) to ask the Minister of Finance:

(1) What measures other than the earmarked conditional grants have been implemented in order to improve service delivery among municipalities;

(2) whether he will consider enhancing the fiscal autonomy of the municipalities by (a) reducing conditional grants and (b) increasing the channelling of resources through the Local Government Equitable Share; if not, why not; if so, what are the relevant details?

CO629E

REPLY

(1) Government spends more than R2.5 billion per year on various forms of capacity building and support for local government. This includes funds allocated through conditional grants and other programmes. The non-grant programmes being implemented to improve the capacity of municipalities to deliver services include:

a. The work of the Municipal Infrastructure Support Agent in deploying skilled technical personnel to municipalities, as well as providing training and systems for planning infrastructure delivery and maintenance.
b. The Municipal Finance Improvement Programme which deploys financial management expertise to municipalities and the provincial treasuries responsible for monitoring municipal budgets.
c. The National Upgrading Support Programme under the Department of Human Settlements, which assists municipalities to develop plans for informal settlement upgrading.
d. The Cities Support Programme managed by National Treasury which supports metros to improve their planning and performance so that they are able to deliver services in ways that optimize economic growth and reverse apartheid spatial development patterns.
e. The Integrated Urban Development Framework which is led by the Department of Cooperative Governance provides a framework for managing urbanization and this is complimented by specific capacity support provided to intermediate cities.
f. Each sector department also provides support and advice to municipalities on their specific sector. For example the Department of Water and Sanitation is responsible for reviewing the Water Service Development Plan of every municipality that is a water services authority.

The Inter-Ministerial Task Team on Service Delivery, which is chaired by the Minister of Cooperative Governance and Traditional Affairs, coordinates the work of government in improving the capacity of municipalities to deliver services.

(2) Municipalities are funded through a combination of transfers (conditional and unconditional) as well as revenues they raise themselves. To fund capital spending they can also borrow against future revenues.

The majority of funding for the local government sphere is raised by municipalities themselves. Around 70 per cent of the aggregate budget of the sphere is raised by municipalities themselves, mainly from tariffs on services and property rates. This ability to raise own revenues gives municipalities a much greater degree of fiscal autonomy than any changes to the mix of conditional and unconditional grants could achieve.

The question asks about the possibility of shifting funds between the equitable share and conditional grants to local government. First we need to understand what role each of these transfers plays in the intergovernmental system:

- **The local government equitable share** is allocated to enable municipalities to deliver basic services to poor households. Non-poor residents are expected to pay for the cost of the services they receive from a municipality, so the equitable share funds the cost of delivering free basic services to poor households. The equitable share also subsidises the costs of basic administration and other community services in poorer municipalities. The local government equitable share already grows significantly faster than inflation over the period ahead. It is expected to grow at 9.9 per cent in 2019/20, 9.7 per cent in 2020/21 and 8.6 per cent in 2021/22. These above-inflation increases account for growth in households and higher bulk water and electricity costs. There is therefore no obvious need to reduce conditional grant allocations to further increase equitable share allocations.

- **Conditional grants** play an important role in funding the implementation of national priorities in municipalities. These include building infrastructure to eradicate basic services backlogs; including providing access to water, sanitation and electricity to our people. Grants also fund municipalities to improve their capacity through hiring interns and implementing systems and some grants promote specific priorities such as increasing the labour intensity of municipal programmes in line with the EPWP's objectives, or installing energy efficient technologies in municipal infrastructure. These are all important objectives and government therefore does not intend to reduce conditional allocations to local government.

Government acknowledges that the unequal distribution of economic activity across the country means that the ability of rural municipalities to raise own revenues will be much lower than that of urban municipalities. As a result, transfers (of the equitable share and conditional grants) are more than twice as large per household to rural municipalities, when compared to metros.

While respecting the fiscal autonomy of municipalities is important, so are the oversight responsibilities of national and provincial governments. Both of these are provided for in the Constitution. Given that so many of our municipalities are facing the possibility of financial crisis, government's current priority is to intervene in those municipalities in financial crisis and turn them around, while continuing to build the capacity of local government in the long-term. To this end, the 2018 MTBPS announced the allocation of additional resources to manage interventions in municipalities in financial crisis, as well as a process to review and reform the system of local government capacity building.

What becomes key within the various varying municipalities is the degree in which the fiscal autonomy is applied across municipalities. The impetus is placed on the ability to ensure a close proximity between revenue collection (government funded and otherwise) and the expenditure plan by municipalities. Vital to this is closing the fiscal gap between the competing priorities for local government and ensuring continuity in the built infrastructure plan, continuous maintenance plan to prolong the life expectancy of the new and old asset but most importantly ensure the balance between pro poor socio economic service delivery and revenue generating development plan.

Perhaps when we have dealt with these pressing issues we can, at a more appropriate time, debate the merits of the relative mix of conditional and unconditional allocations to local government and the implications of this for the fiscal autonomy of the local government sphere.