

NATIONAL COUNCIL OF PROVINCES
QUESTION FOR ORAL REPLY
QUESTION NUMBER: 232 [CO476E]
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★232. Mr M S Moletsane (Free State: EFF) to ask the Minister of Finance:

Whether he will increase the allocation of funds from the Division of Revenue to municipalities to equal that of provinces and the national government so that they will be able to (a) appoint qualified officials and deliver services (details furnished); if not, why not; if so, what are the relevant details?

CO476E

REPLY:

The allocation of funds between national, provincial and local government in the Division of Revenue is informed primarily by the functions performed by each sphere. The national and provincial spheres receive larger allocations because they deliver more costly functions, and unlike municipalities they do not collect significant revenues that offset the costs of their services. National government's services include policing, defense, social security and higher education (which is now fee free for students from low-income households). Provinces spend the majority of their budgets on providing healthcare and basic education (which is also free to most learners). On the other hand, the largest services provided by municipalities are electricity reticulation, water, sanitation and refuse removal. All of these are services that all businesses and non-poor households should be paying for. This is part of the reason I always emphasise the importance of all of us paying for the services we use.

In addition, municipalities also collect property rates, which is an important wealth tax paid by property owners, which amounts to over R60 billion¹ per year and is retained by municipalities and not shared with national government or provinces.

The revenue base is, of course, very unequally distributed across municipalities, with high revenue potential in areas with strong economic activity, and much, much weaker revenue potential in most rural areas. This is why the Division of Revenue is structured to allocate more than twice as much per household to rural municipalities than it allocates to urban municipalities through the local government equitable share. These allocations are calculated to fund the cost of delivering a package of free basic services to all households with an income of less than two old age pensions.

The question implies that government should increase funding to municipalities by reducing allocations to provinces and national government. I would not agree with this suggestion that provinces should have less to spend on basic education, clinics and hospitals and that national government should have less money for policing and to provide welfare for the most vulnerable in

¹ Municipalities budgeted to collect R63.4 billion in property rates in 2018/19. In the same year national government collected R55 billion from customs duties and R75 billion from the fuel levy.

our society so that we can increase allocations for water and electricity services. Especially when most of the consumption of municipal services should be paid for by the businesses and households that consume them (bearing in mind that wealthier residents consume much greater volumes of these services than the poor).

And if the Honourable Member had meant to suggest that increased spending be funded through increased debt rather than taking it out of the pockets of teachers and the police, I would also disagree with that suggestion. That would simply amount to taking the money out of the pockets of future generations, as funds that government borrows now will have to be repaid in future. Already, we are spending more every year on interest payments on our existing debt than we are transferring to local government. This government's solution to that problem is not to further increase the debt, rather it is to close our primary deficit over the years ahead so that we can reduce interest payments and have more funds available to invest in services, including possibly through increased transfers to local government.

As for the idea that municipalities do not have sufficient funds to appoint qualified staff, that is not borne out by the evidence. Many municipalities already pay their municipal managers more than the Directors-General of national departments earn. The main challenge in attracting skilled people to work in municipalities are the poor governance environments in those institutions, not the salaries they are offered.

We would have a far more productive debate if we focused on fixing the real problems facing municipalities, rather than pretending that the solution to the problems in local government is to spend more money on it. Especially when we all know that government does not have more money to spend.