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South African Local Government Association

# ***Submission and Comments On The 2016 DoRB***

**Standing Committee on Appropriations**

**02 March 2016**



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# Introduction

- **Outline**
  - Overview and assessment of the 2016 Budget
  - Major changes on the 2016 DoRB
  - Challenges and opportunities
  - Conditional Grant reforms
  - Other DoRB Related Issues
  - Conclusion



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## Introduction

- The DoRB 2016 was presented against a backdrop of a challenging macro-economic outlook for the country, declining GDP projections and increasing fiscal pressures
- This reality has both immediate and medium term implications for the fiscus and instruments for addressing the country's socio-economic needs and development imperatives
- The need for the balancing of competing priorities whilst providing for the basics implies the need for adjustments by all spheres, better management of limited resources, increased accountability and innovation in finding alternative solutions in delivering services



## Background

- We participated in the 2 Budget Forums (June and September) that contributed in the crafting of the MTBPS as required
- We also contributed in the consolidation of what became the 2016 DoRB through our participation at the Special Budget Forum held on 29 January 2016
  - The technical canvassing of the issues between NT, CoGTA, FFC and Salga does assist in clarifying issues even if we do not necessarily agree on everything
- Upfront though we want to acknowledge that some steady progress is being made in some policy matters such as Conditional Grants Review; Costing of the Basket of Services, Division of Fiscal Powers and Functions and others – this still needs to be reflected in the figures



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## Background

- The Budget Speech by the Minister painted a picture of decreasing GDP growth because of global and domestic factors
  - Next period is likely to see more pressure in the spending of the limited available resources by all
    - LG will have to consider its funding requirements against competing needs such as the NHI, drought, tertiary education funding, etc.
  - This will also have greater implications for increased accountability and consequences for the management of these limited resources – oversight function
    - This could be demonstrated for example in limited tolerance for underspending; unauthorised, irregular and fruitless expenditure, etc
    - Lobby for increased funding for local government = more accountability and improved audit (and service delivery) outcomes



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## Baseline Allocations

- The allocations to LG in the DoRB indicate a decline from what was initially projected in the MTBPS
  - Transfers to LG tabled in the MTEF have been reduced to make funds available for other government priorities
  - The MTBPS allocations of R2 billion in 2017/18 and R4 billion in 2018/19 have been reduced to R1,5 billion in 2017/18 and R3 billion in 2018/19
  - The Equitable Share to LG has also been reduced by R300 million in 2016/17; R500m in 2017/18 and R1 billion in 2018/19.
  - These amount to 0.6%, 1% and 1.8% of the value of the formula in each respective year.
    - “Depending on the improvement of the fiscal outlook, further reductions may still be made” - NT



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## Baseline Allocations

- In this context of decreasing allocations, Salga has argued for the protection of allocations to poor and rural municipalities
  - New ES formula has meant massive increases for most rural municipalities
  - Reductions in 2016/17 still leave these municipalities better off than they were under the old formula structure (pre-2013)
  - Rural municipalities know from the 2015 DoRA that their allocations will not continue to grow at this rate
  - We note that the DoRB guarantees 95% of the indicative allocations in the MTEF
  - We also note that additional protection for rural municipalities is provided for through the limit in the reduction to the Institutional and Community Services component of the LGES to 5% in 2016/17



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## Baseline Allocations

- **The Salga and FFC study on the cost of services the Minister alluded to in the Budget Speech has to be urgently considered and some of its findings effected in the ES review process**
  - Cost of the full package of FBS grows by 6.8% while total ES grows by 4.6% in 2016/17 (after reductions)
- The increases in electricity costs granted by NERSA yesterday are going to require a consideration by NT of additional funding in the 2016 adjustments budget to cover the shortfall that municipalities may encounter
- These increases increasingly raise the issue of sustainability of electricity as a revenue source
- Profit margins for the municipalities has over the years been compromised as a result of increasing bulk purchase prices, controlled selling prices (therefore municipalities cannot charge cost reflective tariffs), high unemployment levels, high bad debts, illegal connections and changing energy preferences among others





## Grants Review

- Since 2015, the allocations for direct and indirect conditional grants have been reduced by a further R4,9 billion over the MTEF period
- The grants review process has resulted in the:
  - Merging the water and sanitation grants
  - Using grants to improve sustainable asset management
  - Changing the way roads projects are selected and funding targeted
  - Creating a MIG-Cities (or MIG-2) with new planning requirements for secondary cities
  - Merging urban grants (USDG, NDPG, INEP etc.) over the MTEF
  - Reworking community services funding in the MIG
  - Disappointed though at the dis-continuation of the MHSCG and the 3% instead of 5% window in USDG



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## Grants Review

- The serious decline of the municipal systems improvement grant (MSIG) over the MTEF period is a cause for concern (from R251m in 2015/16 to R84m in 2016/17)
- The outputs for the 2015 Bill and 2016 Bill on MSIG are different.
  - The 2016 Bill does not include “implementation of mSCOA” as a requirement.
  - This is disturbing in a financial year when municipalities are expected to implement the reform.
  - There is no direct funding for mSCOA in the 2016 DoRB
- As this is a huge reform, it needs serious monitoring and support



## Other DoRB Related Issues

- We note and appreciate the following:
  - **Municipal Demarcation Grant – R297**
    - Issue of sufficiency is a matter that the committees could interrogate as the allocation is far shorter than we had projected
  - **The provision for a once off gratuity for outgoing councillors is also noted**
    - Modalities for the management and distribution of this is being worked out with NT and DCoG - R309m
  - **Process to resolve the issue of unfunded/underfunded mandates through the finalization of the Fiscal Powers and Functions framework**
    - The outcome of this process will have a major bearing on the allocation of budgets between line departments and municipalities who perform certain functions



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## Other DoRB Related Issues

- **Cost containment measures**
- We have noted the general appeal that the economic situation of the country requires reprioritisation and frugal management of scarce resources
- We embrace this call and are willing to urge municipalities to comply accordingly
  - the dilemma is if a municipality does not adopt the costs containment circular in council i.t.o. section 168(3) of the MFMA, then the circular is not legally binding.
    - To mitigate this challenge, a possibility of promulgating a municipal regulation on cost containment measures could be considered.
    - Our NMA could discuss this matter and pass a resolution on it



## Other DoRB Related Issues

- **Revenue generation and collection:**
  - Additional revenue raising capacity of LG needs to be pursued.
  - The measures envisaged in the **Local Government Fiscal Powers and Borrowings Act must be given effect**, including
    - Local Business Tax: As a dedicated revenue stream for funding Economic Infrastructure (Replacement of RSC Levy)
    - Direct revenue source for Roads Infrastructure (Municipal) – possible surcharge on Vehicle License Fee



## Other DoRB Related Issues

- Explore Financial Instruments including Borrowings (Loans), Bond Market – in the context of “Pool Financing” between and amongst stronger Municipalities (Gauteng City Region being a prime example)
- Create a legal basis (with Division of Revenue Act) to enable leveraging of Equitable Share to increase / enhance financial credibility and borrowing capacity of Local Sphere (Municipalities)
- Regulatory Framework for Public Private Partnerships (PPP’s) to be revised to ensure greater efficiency of process without digressing from principle of State regulation of pricing, norms and standards, accountability, sound financial principles, value for money, etc.



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## Other DoRB Related Issues

- **National Collections Agency**
  - Municipal revenue collection, credit control and cash flow management remain a big challenge
  - Legislation, infrastructure and systems to support increased and effective debt collection for Municipalities as part of building municipal financial viability
  - If circumstance places municipalities in a situation where they generate limited own revenue – national fiscus must compensate accordingly



## Some Issues To Focus Upon

### DoRA management and s216 issue:

- Yet another looming round of ‘withholding’ of the ES (March tranche)
- **Committee to intervene for a balanced approach between municipal obligations and ESKOM issues**
  - Eskom untenable business practices e.g.
    - Billing after 15 days
    - Prime plus 5% interest
    - Debts exceeding capital amounts
    - Debts not prescribing after 3 years
    - Refusal to sign Service Delivery Agreements
    - Reluctance (refusal) to enforce municipal credit control in areas where they reticulate, etc.





## Conclusion

- 2016 DoRB is not everything we wished for but is understandable under the circumstances
- Closer monitoring by the committee of LG funding and expenditure trends is important
- Creative and innovative solutions needed in ensuring that all municipalities deliver on their mandate
- The study on the cost of basic services is key in informing future allocations and revisions in the LGES
- SALGA NMA to consider some of these developments and propose accordingly to the next Budget Forum



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# Thank You!