



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA

**Financial and Fiscal Commission
Submission for the Division of
Revenue 2008/09
Comments Presented to Select Committee
On Finance
Cape Town
Thursday, 23 August 2007**

Outline

- 1. Introduction**
- 2. Outline of Comments**
- 3. dplg Comments on specific areas of the Financial and Fiscal Commission's Submission on the Division of Revenue 2008/09**
- 4. Conclusion**

Introduction

- The **dplg**'s comments focus on matters in the FFC Submission that affect the provincial and local government spheres
- Comments focus on both the 2008/09 Submission and some Supplementary Submissions made during 2006/07
- The **dplg** notes that a number issues in the FFC's Submission do not necessarily amount to recommendations but are research findings that recommend that further work on certain matters be undertaken before substantive recommendations are made

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Comments on:

- Some Economic Impacts of the 2010 Fifa World Cup
- A Review of the Financing of School Infrastructure and Education Outcomes
- The Financing of Roads and Transport Infrastructure
- A Framework for Considering Market Based Instruments to Support Environmental Fiscal Reform in South Africa
- FFC Submission on the Municipal Fiscal Powers and Functions Bill
- The Fiscal Implications of the Re-demarcation of Provincial Boundaries

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Some Economic Impacts of the 2010 Fifa World Cup

FFC Recommendations:

FFC recommends that to ensure the sustainability of location specific 'legacy effects' because these 'legacy benefits' accrue to the host cities, that such legacy benefits be funded from the own revenue of those cities

dplg Comments:

- Practice (from 2007/08 municipal budgets) indicates that some host cities' budgets will certainly be impacted upon by the 2010 stadiums and related infrastructure and related expenditure; e.g some municipalities are *(Johburg)* increasing rates, surcharges and tariffs to counter fund the expenditure requirements, including supporting infrastructure
- At this stage **dplg** does not agree with the recommendation that legacy benefits be exclusively funded from host cities own budgets, especially in light of the fact that such legacy benefits have yet to be costed, thus, impact of the recommendation is not known
- As a matter of principle any costs that accrue to a host municipality must not compromise the provision of basic services by that municipality or threaten the municipality's financial viability

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A Review of the Financing of School Infrastructure and Education Outcomes

Recommendations:

That effective coordination of planning for the various provincial and municipal grants be instituted urgently to ensure optimal outcomes from school infrastructure investment

dplg Comments:

- The **dplg** agrees with this recommendation
- For water and sanitation, roads, the MIG allocates funding directly to municipalities, and planning for school infrastructure should ideally be done as part of the municipal IDP process of which the Dept of Education should be party to; **dplg** acknowledges that there is room for improvement in terms of these processes, e.g. active participation of sector depts in IDP processes. PIG should be aligned with IDP priorities.
- The **dplg** proposes that the FFC advise Government on how such effective coordination can be realised.

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The Financing of Roads and Transport Infrastructure

FFC Findings:

FFC finds that parts of the municipal access road system are among the most poorly maintained in the world, denying communities access to opportunities

dplg Comments

- the **dplg** agrees with this finding but is concerned that the FFC does not make any recommendations on how to address this issue from a municipal funding perspective
- The general contention is that LG fund maintenance from own budgets and the equitable share, however practice indicates that resource allocation for maintenance in general is poor
- LGES D-Component exploring focussing on road infrastructure.

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The Financing of Roads and Transport Infrastructure

FFC Recommendations:

FFC recommends that a review of the provincial equitable share considers provincial road expenditure needs that will enable them to fund their maintenance needs

dplg Comments

- the **dplg** agrees that road maintenance in general should be given requisite attention. However, there is no indication of how this ought to be implemented.
- However, the **dplg** notes that the FFC does not in its assessment and recommendations address municipal road maintenance
- It is proposed that the FFC make proposals on how to address the issue of the funding of maintenance of municipal roads especially access roads for those municipalities that have low fiscal capacity and are not able to fund such maintenance from their own budgets

concern for rural municipalities

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A Framework for Considering Market Based Instruments to Support Environmental Fiscal Reform in South Africa

Recommendations: based on National Treasury draft Environmental policy Paper)

The FFC raises the point that there may be a case for earmarking environmental revenues/royalties to the lowest level of government where environmental damage take place

dplg Comments:

The impact of environmental damage may have significant cost implications to local government and that in principle any revenues from such taxes if implemented should be shared with or distributed appropriately to this sphere

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A Framework for Considering Market Based Instruments to Support Environmental Fiscal Reform in South Africa

FFC suggestion:

That to clarify roles and responsibilities in this case that an institutional table indicating the sphere of government responsible for specific environmental problems and the related tax instruments be published

dplg Comments:

The policy review process on provincial and local government is unfolding and can contribute to the contents of such a matrix. The **dplg** is concerned that publishing such a table prior to the completion of this policy review could preempt the outcome of the review.

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FFC Submission on the Municipal Fiscal Powers and Functions Bill

Recommendations:

FFC generally welcomes the Bill however concerns are raised about the autonomy of LG as well as the need for LG to apply for the imposition of surcharges.

dplg Comments:

The **dplg** has worked together with the National Treasury on the processes and content of this Bill, and supports the Bill in its entirety in terms of content and supports all processes followed in the processing of this Bill.

- Regarding the issue of autonomy of LG, legal opinion (from Government as well as from Parliament) indicates that the Bill's provisions are consistent with the Constitution and do not impose on LG's fiscal autonomy
- In terms of the Bill, LG need not apply to impose a surcharge; application is limited to LG taxes.
- RSC levies replacement instrument remains national gov responsibility.

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FFC Submission on the Municipal Fiscal Powers and Functions Bill

FFC concerns:

FFC is concerned that the lowering of (electricity) surcharges may have implications for cross subsidisation of other services by municipalities

dplg Comments:

- It is important that consumers pay 'fair' prices for electricity. In any attempt to lower the surcharges over time, the fiscal implications on other services and appropriate remedies should be considered.

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Fiscal Implications of the Re-demarcation of Provincial Boundaries

FFC findings:

FFC indicates that affected municipalities were 'not compensated' in light of a reallocation of functions as a result of the boundary changes.

dplg Comments:

With the redemarcation process, any powers and functions changes were dealt with through the through changes to powers and functions in the local government equitable share and MIG formulae that directed the relevant funds to the affected municipalities.

Agree with once-off allocation, e.g, Transitional Fund. Matatiele is case in point.

dplg

Fiscal Implications of the Re-demarcation of Provincial Boundaries

Recommendations:

That changes to boundaries of sub national governments be aligned with the financial years of system applicable for provincial/local government

dplg Comments:

The **dplg** agrees with this recommendation; in fact the Local Government Laws Amendment Bill provides for any changes to powers and functions at local government level to be effective at the start of the next municipal financial year

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Conclusion

In conclusion, the dplg would like the Select Committee on Finance to note that:

- The ongoing work undertaken and advice provided by the Financial and Fiscal Commission on various issues pertaining to provinces and local government is appreciated by the Department
- The Department looks forward to firm recommendations on some of the matters requiring research

THANK YOU

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