

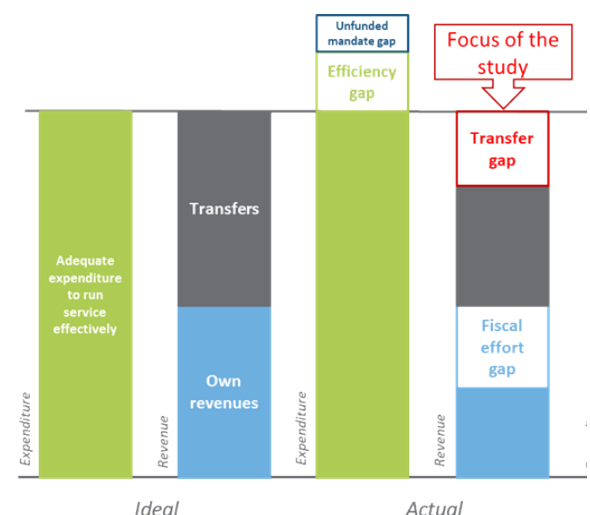
Support to SALGA on the Review of the Local Government Fiscal Framework



The framework for funding local government was set out in the White Paper on Local Government. A key assumption in the White Paper was that municipalities have sufficient revenue-raising powers to be able to fund 90% of their recurrent expenditure out of own revenues. Analysis of local government expenditure between 2019 and 2021 indicated that this coverage was only 60% in reality. SALGA therefore asked PDG to support it to quantify the extent to which the allocation of nationally raised revenues to local government is sufficient to fill the gap between municipal own revenues and required expenditures.

PDG adopted multiple methods in this research. Optimal levels of municipal operating expenditure were estimated by benchmarking against best-in-class municipalities, with statistical analysis to account for the impact of cost drivers and adjustment to account for inefficiencies and unfunded mandates. Optimal levels of capital expenditure were estimated using the Municipal Services Financial Model, a long-standing infrastructure investment planning tool. Finally, maximum potential revenue was estimated using statistical analysis to determine key drivers of municipal revenue performance under varying assumptions about fiscal effort.

The study concluded that local government is underfunded by R150 billion per annum of which a maximum of R92 billion could potentially be filled through additional fiscal effort by municipalities. The remaining R58 billion must be filled by national transfers through increasing the vertical division of revenue to local government from 10.2% to 13.5% at a minimum. The study noted further that local



Unfunded mandates, municipal inefficiencies, lack of municipal fiscal effort and inadequate transfers all contribute to the underfunding of local government. This study focussed on the transfer gap

government needs to play its part in closing the funding gap through better governance, financial management, efficient operations and revenue enhancement if further crisis is to be avoided

Project Leader:
Kim Walsh
+27 21 6711402 / kim@pdg.co.za

LGFF3 PROJECT:

Project Profile: Support to SALGA on the Review of the Local Government Fiscal Framework

Client: South African Local Government Association (SALGA)

Date: 2023 - 2025