



SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

**African Cities and
Subnational and Local
governments at the heart of
the post-COVID economic
and financial recovery:
The role of the Africa Territorial
Agency (ATA)**

Introduction

- It is a well-known fact that the COVID-19 pandemic caught the world by surprise.
- It forced governments to re-prioritise their national agenda and economic outlook because of its impact on the economy.
- The fiscal outlook and plans of local government as the coalface of service delivery changed rapidly.
- The budgets of municipalities were reprioritised to curb the impact of the pandemic on society.
- This happened by re-directing spending more on operational issues than planned infrastructure projects.

Areas of priority spending by Local Government

- Spending by municipalities was directed at the provision of protective equipment for frontline workers.
- The provision of additional water service points in previously under-serviced areas to combat the spread of the virus.
- Public facilities including transport modal facilities had to be sanitized instead of providing normal repairs and maintenance.
- Capital infrastructure projects were halted due to government regulations on lockdowns.

The Financial Effects of COVID-19 on local government in South Africa

- Revenue collection on rates and service charges decreased from 93 percent to less than 50 percent due to payment holidays given to ratepayers as a result of job losses.
- Four metropolitan municipalities which are economic growth drivers collected R4 billion less than what they usually collect.
- The debts owed to municipalities increased to R230 billion from R181 billion in the same period in the last financial year.
- Municipalities spent just over R5 billion on COVID-19 related prevention measures.

The State of local government finances in South Africa

- Pre COVID-19 budgets of municipalities showed R403 billion in expenditure and R409 billion in revenue.
- Grants from nationally raised revenue allocated to local government for basic services amount to R74 billion.
- R11 billion was added by the state but this hardly covered the costs of providing covering COVID-19 related expenses and lost revenue.
- Municipalities had to raise R330 billion revenue from rates and user charges, and they only managed to raise R294 billion as of June 2020 (it was R147 billion).
- That implies that the revenue-raising potential of local government is continuously shrinking.
- Most of the municipalities are budgeting for revenue that exceeds the previous collection rate, but expenditure is based on the unreliable revenue.
- This results in municipalities approving unfunded budgets.

The state of local government finances in South Africa

- This state of affairs has resulted in many municipalities facing financial challenges.
- As of June 2020, 125 out of 257 municipalities were declared to be in financial distress and this number has increased to 163 in December 2020.
- This means that there is an increasing number of municipalities that cannot pay their major creditors which are bulk services suppliers of water and electricity.
- The situation is likely to worsen given the gloomy economic outlook of the country.
- This can also be exacerbated by the looming 3rd wave of COVID-19 which is likely to hit the country in the next few weeks.

Conclusion

- Therefore National government have to review the funding and the funding model to local government in order to counter the effects of 3rd wave COVID-19
- Local government also has to improve its governance, institutional, and financial management capabilities in whether the current and upcoming storm.
- SALGA is on course with various projects to assist municipalities with improving their governance and financial management.
- SALGA is also collaborating with other spheres of government to assist municipalities to mitigate the effects of the pandemic.



Thanks